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of the

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of the

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Organized at Saratoga, September 9, 1885

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Inquiries and other communications regarding membership, meetings, and the general affairs of the Association, as well as orders for publications, should be addressed to the Secretary of the American Economic Association, Ithaca, N. Y.

TABLE OF CONTENTS

[1] Not read at the meeting.

374958

PROGRAM OF THE THIRTY-FIRST ANNUAL MEETING

All the sessions were held in the Jefferson Hotel.

FRIDAY MORNING, December 27

9:00- 9:25. Business meeting. Reports of officers and committees; appointment of nominating committee, etc.

9:30-12:30. Sectional meetings

9:30-12:30. SECTION ON ACCOUNTING AND MARKETING

9:30-10:55. ACCOUNTING. Joint meeting with the American Association of University Instructors in Accounting. Chairman, F. H. Elwell, President, American Association of University Instructors in Accounting

Paper: INTEREST ON INVESTMENT AS A MANUFACTURING COST FACTOR
C. H. Scovell, C.P.A., Boston, Mass.
Discussion
Lewis H. Haney, Federal Trade Commission
Spurgeon Bell, University of Texas

11:00-12:30. MARKETING METHODS AND COSTS. Chairman, L. D. H. Weld, Swift & Company, Chicago

Paper: EFFECT OF GOVERNMENT CONTROL ON MARKETING METHODS AND COSTS
B. H. Hibbard, Wisconsin College of Agriculture
Discussion
James E. Boyle, Cornell University
Guy C. Smith, Connecticut Agricultural College
Paper: PROVISIONS OF THE FOOD ACT AND ACTIVITIES WHICH SHOULD BE MADE PERMANENT
W. F. Gephart, Washington University
Discussion
Ray B. Westerfield, Yale University
H. R. Tosdal, Boston University
E. G. Nourse, Iowa State College
L. C. Gray, George Peabody College for Teachers
Guy C. Smith, Connecticut Agricultural College
Lee Galloway, New York University School of Commerce[1]
Paul D. Converse, University of Pittsburgh

9:30-12:30. SECTION ON RATE OF INTEREST AND PRICE LEVELS

9:30-10:55. RATE OF INTEREST

Paper: THE WAR AND THE SUPPLY OF CAPITAL
David Friday, New York University
Discussion
Roy G. Blakey, University of Minnesota[1]
Hermann F. Arens, Babson's Statistical Organization
Lloyd M. Crosgrave, University of Minnesota[1]
Elisha M. Friedman, War Finance Corporation
Simon Litman, University of Illinois
Jacob H. Hollander, Johns Hopkins University[2]
Paper: THE WAR AND INTEREST RATES
E. W. Kemmerer, Princeton University
Discussion
W. W. Stewart, Amherst College[1]

11:00-12:30. PRICE LEVELS. Joint meeting with the American Statistical Association. Chairman, Wesley C. Mitchell, President, American Statistical Association

Paper: PRICE FLUCTUATIONS DURING THE WAR
W. W. Stewart, Amherst College[3]

Discussion
Jacob H. Hollander, Johns Hopkins University[2]
E. W. Kemmerer, Princeton University[1]
E. M. Friedman, War Finance Corporation

Paper: THE POSSIBILITY OF COMPILING AN INDEX OF THE COST OF LIVING
Royal Meeker, U.S. Bureau of Labor Statistics

Discussion
Irving Fisher, Yale University
B. M. Anderson, Jr., National Bank of Commerce[1]
Simon Litman, University of Illinois

9:30-12:30. SECTION ON TAXATION
Report of the Committee on War Finance,[4] Chairman E. W. Kemmerer, Princeton University

Discussion
T. S. Adams, U.S. Treasury Department
Frank L. McVey, President, University of Kentucky[1]
George E. Holmes, New York City
John Cummings, Vocational Board
Kingman Nott Robins, Rochester, N. Y.
W. I. King, University of Wisconsin
E. L. Bogart, Office of the Foreign Trade Adviser

FRIDAY AFTERNOON

2:30- 5:30. LABOR PROBLEMS. Joint meeting with the Association for Labor Legislation

2:30- 3:55. INTERNATIONAL PHASES OF LABOR RECONSTRUCTION,[5] Chairman, Samuel McCune Lindsay, President, American Association for Labor Legislation

Paper: LABOR IN THE PEACE TREATY
John B. Andrews, Secretary, American Association for Labor Legislation

Paper: CONSTITUTIONAL CONSIDERATIONS
Thomas I. Parkinson, Major U.S.A.

4:00- 5:30. THE PSYCHOLOGY OF LABOR UNREST. Chairman, Irving Fisher, President, American Economic Association

Paper: SECURING THE INITIATIVE OF THE WORKMAN
Robert B. Wolf, Emergency Fleet Corporation

Informal Discussion

FRIDAY EVENING

8:00-10:00. PRESIDENT'S ADDRESSES. Chairman, Governor Westmoreland Davis of Virginia

THE ADVANTAGES OF PLANNED RURAL DEVELOPMENT
Elwood Mead, American Association for Agricultural Legislation

THE NEXT STEPS IN SOCIAL INSURANCE IN THE UNITED STATES
Samuel McCune Lindsay, American Association for Labor Legislation.

ECONOMISTS IN PUBLIC SERVICE
Irving Fisher, American Economic Association

SATURDAY MORNING

9:30- 9:55. Business meeting of the Association. Election of officers, etc.

10:00-12:30. Sectional meetings

10:00-12:30. SECTION ON MONETARY STANDARDS

Paper: AFTER-WAR RECONSTRUCTION: LIBERATING GOLD
A. C. Miller, Federal Reserve Board

Discussion
F. W. Taussig, U.S. Tariff Commission[1]
Jacob H. Hollander, Johns Hopkins University[2]
B. M. Anderson, Jr., National Bank of Commerce[1]
E. M. Friedman, War Finance Corporation

Paper: STABILIZING THE DOLLAR
Irving Fisher, Yale University

Discussion
B. M. Anderson, Jr., National Bank of Commerce
Hermann F. Arens, Babson's Statistical Organization
W. I. King, University of Wisconsin
O. C. Lockhart, National Bank of Commerce

10:00-12:30. SECTION ON AGRICULTURAL LEGISLATION. Joint meeting with the American Association for Agricultural Legislation. Chairman, Elwood Mead, University of California, President, American Association for Labor Legislation

Paper: THE AGRICULTURAL LADDER
W. J. Spillman, Washington, D. C.

Paper: TENANCY IN AN IDEAL SYSTEM OF LANDED PROPERTY
Richard T. Ely, University of Wisconsin

Paper: LAND TENURE AND PUBLIC POLICY
William Kent, U.S. Tariff Commission

Discussion
Charles L. Stewart, University of Arkansas
W. J. Spillman, Washington, D. C.
B. H. Hibbard, University of Wisconsin

SATURDAY AFTERNOON

2:30- 3:55. PRICE FIXING. Chairman, E. L. Bogart, University of Illinois

Paper: PURPOSES OF PRICE FIXING AND SOME OF ITS RESULTS
George F. Warren, Cornell University

Paper: THE POSSIBILITIES OF PRICE FIXING IN TIME OF PEACE
T. N. Carver, Harvard University

Paper: PRICE-FIXING POLICIES OF THE FOOD ADMINISTRATION
Lewis Cecil Gray, George Peabody College for Teachers

Discussion
E. G. Nourse, Iowa State College
W. F. Gephart, Washington University

4:00- 5:30. ECONOMIC THEORY. Joint meeting with the American Sociological Society. Chairman, Charles H. Cooley, President American Sociological Society

Paper: THE PLACE OF ECONOMIC THEORY IN AN ERA OF READJUSTMENT
J. M. Clark, University of Chicago

Paper: THE PSYCHOLOGICAL BASIS FOR THE ECONOMIC INTERPRETATION OF HISTORY
W. F. Ogburn, University of Washington

Discussion
F. A. Fetter, Princeton University

Paper: THE INSTITUTIONAL APPROACH TO ECONOMIC PROBLEMS
Walton H. Hamilton, War Labor Policies Board

Discussion
W. W. Stewart, War Industries Board[1]
L. H. Haney, Federal Trade Commission
B. M. Anderson, Jr., National Bank of Commerce
Rejoinder by J. M. Clark

SATURDAY EVENING

8:00-10:00. ECONOMIC BASES OF PERMANENT PEACE. Chairman, President Fisher
Report of the Committee on Foreign Trade
Elisha M. Friedman, Chairman
Paper: THE OPEN DOOR AND COLONIAL POLICY
William Culbertson, U.S. Tariff Commission
Discussion
J. F. Cremer, Minister from the Netherlands
R. M. Hale, Columbia University
Emily G. Balch, New York City[1]
THE ECONOMIC FACTORS IN THE MAINTENANCE OF PEACE. A paper prepared by O. M. W. Sprague, Council of National Defense, but not read owing to Professor Sprague's absence
Discussion
C. van Vollenhoven, University of Leyden

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[1] Manuscript not supplied.
[2] Manuscript received too late for insertion.
[3] Manuscript not supplied, but the statistical data and charts presented have been published in a Bulletin issued by the Price Section of the War Industries Board.
[4] The Report of the Committee on War Finance, comprising 127 pages, is published together with the discussion of it at the Richmond meeting as *Supplement No. 2,* March, 1919.
[5] The proceedings of this session are published in the *American Association for Labor Legislation Review.*

ECONOMISTS IN PUBLIC SERVICE

Annual Address of the President

Irving Fisher
Yale University

Of the many effects which the war has exerted on the minds of men, one of the most notable is the keener desire which we all now feel to be of genuine public service. During the war hundreds of our members have done "war work." In Washington alone one hundred and twenty of them have been in public service.

During the impending world-reconstruction, economists will probably have more opportunity to satisfy this impulse than most students in other departments of human thought; for the great problems of reconstruction are largely economic.

It therefore becomes each of us, as we pause on the threshold of a possible "new world," to consider what are the new opportunities and what the new duties which lie before us. That new world of which we are all speaking is still unbuilt. Is it to build itself, unplanned, or is it to have architects? And are we to be numbered among the architects? These are undoubtedly some of the thoughts and hopes and fears which stir us today.

How different they are from those of our own economic teachers a generation ago! Then many economists thought it beneath their dignity to engage at all in practical affairs except to cry: "*Laissez faire.*" They believed that a scientist should be simply an observer, compiler, and interpreter of facts, not a guide, counsellor, and friend of humanity.

It is noteworthy that their attitude of academic aloofness not only failed to give to economic study, in the eyes of the world, that status of a "true science" which they claimed for it but, on the contrary, brought it into disrepute and provoked a vigorous reaction. The world demanded that economics should become something more than "the dismal science."

Accordingly, a new economics sprang up, intent on "doing something." This new school was centered in Germany as the older "Manchester School" was centered in England.

When the American Economic Association was founded thirty-three years ago the antagonism between these two schools was at its height. In fact, we owe the formation of this Association chiefly to that antagonism. A number of young American econ-

omists, fresh from the inspiration of study in Germany, were eager to convert American economists to a new and more optimistic point of view.

The chief American economists of that time, however, regarded the young enthusiasts just back from Germany as upstarts, meddlers, and propagandists, unworthy of any standing in the hierarchy of true economic science. Some of them, like my own revered master, Professor Sumner, even declined to join the American Economic Association for fear of lending aid and comfort to a propaganda with which they were wholly out of sympathy.

It was doubtless in view of this strong feeling on both sides that the Economic Association when formed was strictly limited as to its functions. As our constitution says, its object is:

"The encouragement of perfect freedom of economic discussion. The Association as such will take no partisan attitude, nor will it commit its members to any position on practical economic questions."

A year and a half ago, after America entered the war, some of our modern enthusiasts proposed that the Association should endeaver to find, and do, its "bit" for the country. The objection was promptly interposed that, as an organization, we had no "bit" to do; for we were apparently prohibited by our constitution from taking any "partisan attitude" or committing our members to "any position on practical economic questions." But a few months afterward, that is, a year ago, after much debate a proposal to appoint a Committee on the Purchasing Power of Money in Relation to the War was adopted, and later the Executive Committee appointed a number of other committees on war problems, including committees on War Finance, Foreign Trade, Price Fixing, Marketing, and Labor. Some of these committees have done work of great service to the country.

I mention these incidents in our history, as a text from which to draw certain lessons. What I most wish to point out concerns not so much the attitude of the Association as such but the attitude of its members as individuals.

The conflict between those economists who were conservative and those who were radical in regard to applying academic study may be resolved into two separate questions or issues. The first is: Should economists remain in academic seclusion, concerned principally with pure theory and leaving the vulgar world to take care of itself, or should they seek practical applications for their

principles? The second is: Granted that we should serve, exactly *whom* should we serve?

To the first of these questions the radicals have, in my opinion, given the better answer. Even the economic recluse selects, if he can, some theme related to human affairs and fondly hopes that his work may be taken up and utilized by practical men. It must be admitted, however, that most economists even yet depend too much on books and official reports and too little on personally feeling the pulse of real events.

But it is the second question which most needs our attention today: Whom are we to serve? To this, I believe, the conservatives have given the better answer.

Economics may be applied for the benefit of the whole world or for the benefit of one country alone. Again, within a country, economics may be applied for the general good or for a special commercial interest, special class, or special locality.

I have referred to the curiously interesting fact that this Association largely owes its birth to German economics. Undoubtedly German economics brought us a new and altruistic impulse. In particular we received from Germany the idea, close to the heart of every German economist, of making economics of service to "the state."

But in the last two years the war's revelations have made us realize, to our horror, that "the state" served by the German economists, or, at any rate, the German economists of today, was simply the Hohenzollern dynasty. We now know that German professors in general, from theologian to chemist, have prostituted their professional services to serve Germany's criminal purposes.

Frederick Scott Oliver in his "Ordeal by Battle" called the professors the "Priestcraft" through whom the German Government indoctrinated the German people. Professor Emery called the war a war of the economic interpretation of history. Others have called it a professors' war and especially an economic professors' war. Some among the very group of German teachers who stirred the enthusiasm out of which this Association grew, and more among their successors, in their service of "the state," helped to lay the foundation for the war. That foundation, or the part of it which they helped to lay, was a predatory economics, the economics of a beast of prey, the economics of loot by war. In this species of economics, property rights had existence only within the state, not between states.

Even before the war Germany's policy of foreign trade was thoroughly selfish. Transportation and manufacturing interests, backed by the German banks and the German army and navy had gone into the foreign markets to expel the commerce of other countries by fair means or foul, all for the national aggrandizement of Germany.

In view of these facts it clearly behooves us just now to undergo a searching self-examination lest this same fatal taint may lurk in our own American economics which we have taken, in part, from Germany. If we contrast German and English economics, we cannot but be struck by the narrowness and selfishness of the former as contrasted with the breadth and liberality of the latter. The contrast is exemplified by the difference between the spirit of "Free Trade" and "Protection." Though the English policy was dictated in large part by the conviction that it represented England's own interests in the long run, the great fact remains that these interests were not sought at the expense of other peoples but on the principle that *both* parties gained by a trade, and in the thought that nothing more than free, fair, open competition ought to be sought. This doctrine of "live and let live" has in it few seeds of war.

If, now, at the final peace negotiations, the German style of economics is to dominate, the settlement will degenerate into a race for position "and the Devil take the hindmost." If the Allies should repudiate their own ideas, namely, the ideas of international reciprocity in trade relations and of the open door, and each should merely seek to secure all it could of territory, colonies, trade concessions, special investment rights, exclusive ports, coaling stations, canals, railway routes, and discriminatory tariffs, the Peace table will turn into a gamblers' table, on which will be dealt out the cards for the next great game of war, and, as often happens after a war, the ideas and ideals of the conquered will have made conquest over those of the conquerors.

America has a special opportunity, a special mission—to uphold humanitarian and democratic economics. The very fact that Germany once inspired us toward an economics in the service of the state should spur us now to avoid the nationalistic perversions of that idea which befell our German colleagues. Any American economist who hereafter lends his talents to serve and inflame a hoggish chauvinism, is betraying the high ideals and purposes of America in this war. For instance, even if a more liberal tariff

policy than that existing before the war were not mutually advantageous, even if such a trade involved an economic sacrifice to us as a nation, it would none the less truly be required of us today in order to continue and establish on a permanent foundation that chivalry which has characterized America's part in the war. The call of the hour is to be just and generous. The concept of international obligation has been born. Henceforth any international arrangements must find their justification in international fairness, not in unfair national advantage. Whatever "place in the sun" we seek for ourselves, we must accord to every other nation, small and great, weak and strong, new and old. The golden rule must be the rule between nations as well as within a nation.

The proposed League of Nations is part and parcel of this great idea of international justice now having its new birth and baptism. Such a league is not only a political necessity as a preventive of war; it is also an economic necessity as a preventive of the economic burdens of militarism.

Like our own league of forty-eight states, it would obviate the necessity of great armaments. Without such a league we must resume competitive armaments—must, for instance, as our naval men tell us, compete with England in naval strength; and further competition in armies and navies would mean economic ruin to Europe and great impoverishment to the United States. There are two important special reasons why this would be true. One is that the world, especially Europe, is so nearly exhausted economically that even the old military burdens would now be far harder to bear than before the war. The other is that the renewed competition would be far more costly than the old, since we would start off with all the huge equipment which the war itself has brought.

Secondly, we must be on our guard against the bias of special interests. This bias enters largely into much thinking on the subject of the League to Enforce Peace, for there are interests which would thwart this new and great idea, fearing that the new regime may upset the old to which they and their private purses had become well adjusted.

The great question, then, is: Are we, in our internal economics, to serve the nation as a whole or are we to serve a special group within the nation?

There can be no objection to an individual economist associating himself with a special business and putting his talents at its

disposal, provided, of course, he does so openly, and provided the business is legitimate, that is, provided his activities are not inconsistent with the general welfare.

Academic economists, from their very openmindedness, are apt to be carried off, unawares, by the bias of the community in which they live.

Economists whose social world is Wall Street are very apt to take the Wall Street point of view, while economists at state universities situated in farming districts are apt to be partisans of the agricultural interests.

The economists of a century ago were unconsciously writing from the standpoint of the employer rather than from that of the employee, as was shown by their references to labor as an expense of production. Today, on the contrary, as labor is increasing in power, we find many economists are, consciously or unconsciously, taking the point of view of the laborer. This comes closer to being the democratic, humanitarian, or public point of view, but is often in real antagonism to it. Trade unionism, socialism, and even Bolshevism, syndicalism, or I. W. W.ism have occasional champions or apologists among economists. Socialism especially has enlisted under its banner a motley group of theorists eager for some realization of their humanitarian intentions. In a sense, of course, "we are all socialists nowadays." But what should give us pause before enrolling under that banner is that, in reality, it is the red flag of class war. Whatever we may say of theoretical socialism of various types, and however much we may and ought, in my opinion, to favor in some form an increase of socialized industry, the great fact remains that the socialist group derives its real strength from class antagonism. This is even truer of the I. W. W. A few weeks ago a workman in the I. W. W. wrote me: "Nothing could give me a greater pleasure than to have an opportunity to exterminate from the globe every capitalist. That time is coming, thank God!" The Dutch minister at Petrograd recently said: "Translated into practice, the Bolsheviki principles are 'high wages for no work, the taking of others' property without punishment, and no taxation.' "

There can be little doubt that we are facing a great peril today, the peril of perverting the democracy for which we have just been fighting with such devotion.

It is our opportunity and our duty to dedicate ourselves to the task of working out economic measures in the interests of hu-

manity and democracy as against the selfish interests of either the capitalist or the laborer as such.

If we jealously guard our independence and impartiality we shall gain for our profession the enviable position of being the logical arbiters of the class struggle now beginning—arbiters which both sides can trust. We may, and should, take sides, but only as a just judge takes sides when he renders his decision and only after a fair weighing of the evidence.

We may be sure that there will be a bitter struggle over the distribution of wealth until a more or less definite readjustment has been found. Professor King of the University of Wisconsin has shown that something like two-thirds of our people have no capital except the clothes on their backs and a little furniture and personal belongings, while the major part of our capital is owned by less than two per cent of the population. The income-distribution is not quite so unequal. About half of our national income is received by one-fourth of our population. There is evidence to show that this striking inequality of distribution of capital and income is increasing and that it is greater in cities than in the country. Still more distressing is the fact that, since the twentieth century began, wages reckoned in commodities, not money, have been actually decreasing while profits have been increasing. The purchasing power of wages over food in 1917 was only a little over two-thirds of what it was ten years before. The extraordinarily high wages of 1918 among certain forms of skilled labor are, of course, not representative.

The real scientific study of the distribution of wealth has, we must confess, scarcely begun as yet. The conventional academic study of the so-called theory of distribution into rent, interest, wages, and profits is only remotely related to the subject. This subject, the causes and cures for the actual distribution of capital and income among real persons, is one of the many now in need of our best efforts as scientific students of society. I shall here merely throw into the discussion a few tentative thoughts which seem to me to be now either completely overlooked or only dimly appreciated.

There are, I believe, two master keys to the distribution of wealth: the Inheritance system and the Profit system.

The practices which happen to be followed by men of great wealth in making wills is certainly the chief determinant of the distribution of their wealth after their death. Mr. Albert G.

Coyle, one of my former students, has estimated that four-fifths of the one hundred and fifty or more fortunes in the United States having incomes of over $1,000,000 a year have been accumulating for two generations or more. It is interesting to observe that, although the formulae expressing distribution by Pareto's logarithmic law are similar for the United States and England, the number of wealthy men at the top is two and a quarter times as great, in proportion to population, in England as in the United States, presumably because the number of generations through which fortunes have been inherited are much greater there than here.

Yet the man who wills property does so without regard to its effect on the social distribution of wealth. In fact even from the private point of view careful thought is seldom bestowed on the solemn responsibility of bequeathing property. The ordinary millionaire capitalist about to leave this world forever cares less about what becomes of the fortune he leaves behind than we have been accustomed to assume. Contrary to a common opinion, he did not lay it up, at least not beyond a certain point, because of any wish to leave it to others. His accumulating motives were rather those of power, of self-expression, of hunting big game.

I believe that it is very bad public policy for the living to allow the dead so large and unregulated an influence over us. Even in the eye of the law there is no natural right, as is ordinarily falsely assumed, to will property. "The right of inheritance," says Chief Justice Coleridge of England, "a purely artificial right, has been at different times and in different countries very variously dealt with. The institution of private property rests only upon the general advantage." And again, Justice McKenna of the United States Supreme Court says: "The right to take property by devise or descent is the creature of the law and not a natural right—a privilege, and therefore the authority which confers it may impose conditions on it."

The disposal of property by will is thus simply a custom, one handed down to us from Ancient Rome. It is no more inviolate than the custom of the disposal of the body of the dead by burial. Just as, in the interests of the living, we are substituting cremation for burial, so—likewise in the interests of the living—we may substitute a new for a traditional method of disposing of the dead man's goods.

Numerous limitations of the right to will property do, in fact, already exist in each of our states—some under common law, oth-

ers under statute law. There are, in particular, restrictions against tying up property (except in charitable bequests) in perpetuity. These restrictions have, undoubtedly, restrained the accumulation of swollen fortunes. There is no reason why we cannot continue to add to such limitations so far as seems wise.

For instance, Rignano, the Italian economist, suggests making the state co-heir of all bequests so that it will receive one-third of the estate on the first descent, two-thirds of the remainder on the second, and the residue on the third descent.

So much for the first great factor responsible for an undemocratic distribution of wealth—the inheritance system. It has to do with the transmission of fortunes from one generation to another. The other great factor, the profit system, has to do with the mushroom growth of a fortune in a single generation.

When fortunes are made with prodigious speed, it is usually wholly or chiefly through profits. Accumulation by compound interest, though amazing in its possibilities *after* a fortune is large, cannot in a single lifetime make a large fortune out of a small one. Every "self-made" millionaire, so far as I know, became such, if honestly, primarily through profits. Profits are the *chance* part of distribution, the part which is the *uncertain*, and therefore extremely *variable*, margin left after the more fixed and known parts of the distribution—rent, interest, wages, and salaries—have been deducted.

Profits are, next to wages, the most important element of our national income, comprising over a quarter therof and being more important than rent and interest combined.

My query here is: May we not find ways, by legislation and otherwise, of modifying more or less profoundly the present profit system? I have in mind not only profit-sharing plans, plans for coöperative producing, buying or distributing, and schemes for allotting common stock to employees by which the worker may feel a stake in the business in which he is engaged; but also, and more particularly, possible participating by the public itself through the government.

I am aware, of course, of the obvious and real objections to such plans and I am not offering a solution of this problem, but suggesting what seems to me a promising line in which we economists may seek a solution. Perhaps there are many different solutions, varying according to circumstances. It may well be that a place will always be left for pure private ownership and man-

agement, as well as a place for pure government ownership, even though a mixed system or systems, such as I have in mind as possible, be placed between.

We already have some examples of mixed types, such as government regulation; leases to private capitalists with reversionary rights to the city, state, or nation; subsidies; price fixing; guaranteeing prices; underwriting against loss; taxes on profits or on excess profits.

The important point is that, under the present private-profit system, the chance of profits and risk of losses as well as the management are entirely in the hands of one only of the three classes interested in the success of the enterprise. The other two classes, namely, the workers and the public, do not ordinarily participate much, if at all. The enterpriser or chance-taker has, under this system, come to think and to speak of his industry as "my business" and gets quoted even as saying "the public be damned." For instance, we entrust the great public function of conducting our public press to irresponsible private capitalists who in turn are largely controlled by their advertisers, even more irresponsible.

Fundamentally the question is one of adequately representing the parties whose interests are involved. Only incidentally is it a question of efficiency. Yet I believe the two are not so far apart as is often supposed. An efficient autocracy in industry is as suicidal in the end as an efficient autocracy in politics has shown itself to be. Either is unstable because unrepresentative. The most enduring of great banks is the Bank of England because it is based not on a narrow money-making efficiency, but on the idea of efficiency for public service. Even its governor represents not the banker in the English sense but the "merchant," a merchant banker who stands partly for the public whom the banker serves. Yet the Bank of England is technically a private bank. Its great merit is that the bank's customers, including the government, participate in shaping its policy.

While government enterprise has glaring defects, the present system of private profit is also defective. It is even very costly to the public in that the enterpriser requires the chance of large profits to compensate for the large risks he assumes. Two unfortunate consequences follow. One is that in this great game of chance the lottery winnings make multimillionaires out of millionaires, which is inconsistent with democratic ideals and democratic progress. The other is that it creates hostility on the part

of the other two classes. The workman therefore is over-ready to strike, shirk, or commit sabotage. The local public often cordially hate a great railway like the Pennsylvania system or the Southern Pacific at whose mercy they are, or a great corporation, trust or bank, which they call an "octopus." From such hostility comes a contest for political power and, too often, corruption. This corruption should not all be charged up to politics as such; for much of it is due to private industry struggling for private profits in disregard of public usefulness.

The government, representing the public, is, with all its faults, in a better position than the private capitalist to underwrite great industrial undertakings, both because its resources are greater and because the chances of gains and losses in many different directions would tend, more fully, to offset each other. Government underwriting of industry is thus in the last analysis simply a species of social insurance.

It is interesting to observe that such social insurance as we are now familiar with—workmen's compensation, health insurance, etc.—usually provides that the cost and management shall be shared by the three parties interested, employer, employee, and state.

Nor is such an extension of the principle of social insurance as I am now tentatively suggesting so strange as it may at first appear. It is just what we have seen happen under the stress of war. Early in the war the profit system by which the government let out to contractors the making of munitions and other supplies was found to be not only very expensive but to work very badly. We therefore hastily improvised many kinds of government regulation to meet the situation. The important point for us to note here is that the government thus assumed some of the commercial risks and insured others against them. To secure an adequate wheat supply it guaranteed to the farmer the price of wheat, while, at the same time, it protected the public against "profiteering" in prices of bread. In taking over the railways it guaranteed certain minimum profits. It assumed the most of the risks in shipbuilding. It supplied a revolving fund to loan to essential industries which would otherwise run the risk of not securing needed capital. It put government officials in charge of munition works which, under private management, were in danger of failing to give the needed service to the country. It did all these things clumsily; but it had to do something because private

enterprise failed or could not be depended on to render the service to the country which the country needed and demanded.

Even before the war there were many examples of some sort of government participation. Railways were often built in part by subsidy of nation, state, or locality, in order that the public interest might be served. Irrigating, forestry, and water power development have had government ownership or participation in various forms. Abroad, both town and nation are sometimes coowners with individuals in the forests.

I may add that, in my opinion, the rather common idea that profits should be limited to a "fair rate of interest" is not a solution of the difficulty. It is as absurd and unfair as the socialists' dictum that profits are essentially stolen from workmen's wages. Nothing would serve so effectually to kill enterprise as to forbid the enterpriser from securing more profits than he could get by lending his money, unless at the same time we protect him against losses. Some one must assume the risks of enterprise, and he who assumes the risks of loss is entitled to the chance of profits. As long as we keep the system by which the private capitalist is, single handed, to struggle to win wealth from natural resources, we must give him the chance of winning big prizes together with the chance of great losses.

Needless to say, therefore, I am not attacking the man who takes profits under the present system. He ought not, or not always, to be stigmatized as a profiteer. Nor am I attacking the man who wills his property in the ordinary way. Both are playing the game according to the present rules. My criticism is not of the players, but of the rules. New rules may be found—rules better for both the players and the onlookers.

Our society will always remain an unstable and explosive compound as long as political power is vested in the masses and economic power in the classes. In the end one of these powers will rule. Either the plutocracy will buy up the democracy or the democracy will vote away the plutocracy. In the meantime the corrupt politician will thrive as a concealed broker between the two.

On the face of it, we should expect that all the evils mentioned would be relieved if we had more democracy in industry, that is, if the workman and the public felt that the great industries were partly theirs, both as to ownership and as to management.

As to the representation of workmen in the management, some

industries have introduced a "Senate" to represent the office staff and a "House of Representatives" to represent the shop workers. These, with the executive, exercising a veto power, manage the industry after the pattern of our political republic. This and other plans for a more representative control are worth careful study. A large part of our present dissatisfaction with industry comes from its autocratic control, which is growing more rapidly centralized even than is the actual ownership. The device of the corporation, especially the holding corporation, has put a large fraction of the capital of the country into the hands of a small group of magnates mostly in New York City.

So much for the distribution and control of wealth. There are other subjects equally worthy of our attention. Even if the distribution of wealth could be ideal, the industrial world would find abundant reason for discontent. Just as the political freedom sought by the French Revolution proved insufficient and disappointing, so will what is now called economic freedom be found insufficient and disappointing.

When we speak, however figuratively, of wage-slavery, we ought to think not only of low wages, but also of the repulsiveness of the work itself. The great reason why an industry fascinates the employer but bores the employee is, in my opinion, that human psychologic laws are neglected.

I hope that psychologists may some day, in coöperation with economists, help to a truer understanding of the nature of human freedom. What we liberty lovers are really groping for is, apparently, not to do as we *think* we please but to do what will actually please us after it is done; that is, to satisfy fairly well all of the great fundamental human instincts, of which there are many besides the instinct of self-preservation or of making a living. The workman not only longs for more pay, but he hungers and thirsts for other things which he cannot formulate, because so largely unconscious.

The problem of making manual workers contented, or as contented as the rest of us, or as contented as they can be, is not, therefore, a problem simply of the distribution of wealth. It is one of introducing, or re-introducing, certain fundamental motives into industry. Just as the large capitalist does not usually accumulate for his children but for the love of accumulating, and just as inventors (as Professor Taussig has shown) do not usually invent merely, or even chiefly, for money but for the love of

inventing, so the workman can be motivated also by quite different motives from the ordinary pay-envelope motive. I refer to the creative and other impulses emphasized at this session by Mr. Robert B. Wolf and others, and by Miss Marot and Ordway Tead in their books, as well as a year ago in our Philadelphia meeting by the late Professor Carleton Parker (whose important pioneer work will, I hope, never be forgotten).

The war affords us a great object lesson here. Men previously apathetic in the shop, under the money motive, have exhibited a wonderful eagerness to fight for their country with no wages to speak of and with no money bonus whatever. Again, when the armistice was signed, this wonderful "morale" shrank appreciably overnight. Still again, we find that many of the soldiers who return to work after the excitements of military life are actually spoiled as workmen. We must find ways of putting real "pep" into the worker—for his sake as well as others'. Perhaps a wiser employment management can and will spread over the country as a result of the war and, in particular, of the studies of the War Industries Board with its 13 courses and 275 graduates fitted thereby to become employment managers. Perhaps the labor men can take the initiative. Either or both might happen through several agencies, including the Industrial Department of the Y. M. C. A.

We economists ought to be able to play an important part, in coöperation with psychologists, employers, and employees, by studying this new movement, distilling out the essential truths it represents, and contributing constructive suggestions of our own. The psychologist and the religious workers helped vastly in creating our soldiers' morale. Cannot the morale needed in industry be secured with equal success? If we can and do secure it, it will be by making industry really democratic. And if we do secure it, the productivity of industry will be greatly increased because those who have its success at heart and put their own interest and initiative into that success will include the millions of workers and not merely the thousands of employers.

Here again the war teaches us a great lesson. The miraculous accomplishments of the United States were due not to a centralized organizing genius, such as created German military power in forty years, but to a decentralized coöperation whereby each citizen, of his own initiative, tried to do his "bit." Not only was the war a triumph of democracy over autocracy but it demonstrated the effi-

ciency of the democratic method, that is, the method which relies on enlisting the active initiative, the enthusiastic interest and will to help, of the people. The Prussian method has failed and the Prussian method in American industry has failed and always will.

These problems of industrial discontent are only some of the great problems now before us.

There is not time even to sketch the others. One of them concerns the rehabilitation of monetary standards, including not simply resumption of specie payments and restoration of pars of exchange but maintenance of purchasing power. I have often spoken and written on this theme. Here, as always, we must beware of the bias—and I am sorry to say, I know of one economist who has not escaped it—of special interests, whether of the gold miner or silver miner or of the creditor or debtor-interests.

The great field of social insurance for workingmen and especially the next step—Health Insurance—should also engage our attention. Here, likewise, we must steer clear of the bias of the employer, the trade union, the insurance company, or the medical profession.

The problem of demobilization, especially the problem of preventing unemployment during the period of readjustment and the problem of the future occupation in industry or settlement on land of our soldiers, especially those invalided, are also before us.

These and other problems of reconstruction are the basis of our meeting this year, as our program shows. The thoughts we receive at this annual meeting should help all of us who are in earnest to reach conclusions on these topics, if not here and now, soon afterward, and so be of service in shaping American policy in the immediate future.

In order that our influence may be fully exerted, I believe two new agencies are needed—one designed to diffuse such economic knowledge as we possess among the people who do not possess it, and the other designed to increase that knowledge.

At present we college men are, in a sense, teaching the wrong people. We reach a college audience which is not only small but is, I think most teachers will agree, less in need of our elementary teachings than the general public.

An urgent need, in my opinion, is some organized machinery for diffusing economic principles among the masses of our population. The common people, whose ideas will, more and more, rule the world, are in crying need of competent instruction in economics, simplified and reduced to its lowest terms.

In a democracy the people express their opinion on economic problems, but without much opportunity, in the first instance, to make that opinion intelligent. Workmen now act on the ideas, often fallacious even from the standpoint of labor alone, of labor leaders woefully ignorant of the fundamental principles of economics. It is for lack of economic enlightenment that they approve of limitation of output, extravagant expenditure on public works, slackness and inefficiency of workmen, exclusion or destruction of "labor saving" machinery, sabotage, limitation of apprentices, cessation of trade schools, etc. In so doing they are laboring under a "make work" delusion. Likewise, they are apt to cry out for more money in times of inflation, under a money delusion. It is encouraging to note, however, that recently some labor elements, especially the English, as indicated by their recent manifesto on Reconstruction, have become emancipated from most of these doctrines.

The second suggestion is that there should be created an endowment for economic research, in the management of which labor, capital, and economists would, all three, share and which would be a sort of laboratory for the study of the great economic problems before us. Today the physical sciences have their great laboratories, as a matter of course. But the economist is expected to secure his own facts and statistics and make his own calculations at his own expense. Expensive research, far beyond the reach of the professor's purse, is necessary if the economist is to be of any important public service in studying wealth distribution, the profit system, the problem of labor unrest, and the other many pressing practical problems. Harvard University, through its Committee on Economic Research, and other Research Bureaus, are now making a beginning in this direction.

Such an endowment as has recently been suggested might be under the auspices of this Association or otherwise guarded against narrow or partisan control.

Certainly if we are to serve the great world democracy which we hope to see arise from the ashes of this great world conflagration, we must see the problem whole.

Our present opportunity is one which, if now missed, may never come again. The war has kindly lifted us, for a time, out of the old ruts. Consequently the world is far more open-minded, more expectant, and more desirous of getting at the real truth of things today than ever before. But as the years roll by ruts will be worn

again and, once worn wrongly, may be harder than ever to efface or correct.

It is given to us as to no previous generation of economists to share in fixing the foundations for a new economic organization and one which shall harmonize with the principles of democracy.

If we are to succeed it will be because we perform our task with wisdom, unselfishness, and impartiality. As economists in public service in a democratic world we are pledged not to serve simply our local community, our own country, or our own time, but to serve rather all humanity throughout the world and throughout future generations.

INTEREST ON INVESTMENT AS A FACTOR IN MANUFACTURING COSTS

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Accounting and economics are necessarily closely associated. The essential factors in economic discussions—rents, wages, and interest—are reckoned in accounting terms of debit and credit, and the reckonings are made according to working methods that the practice of accountancy has developed. It is the function of the economist to interpret the facts of industry and commerce, whereas the accountant provides the necessary methods and standards for measuring and recording the financial results of business operations.

It is important that both economist and accountant work according to sound principles, and any accounting device that makes the underlying principles of business stand out more clearly, is useful, not only to the business men immediately concerned, but also to the economists, who should thereby have better opportunities for analyzing and interpreting the business facts. Interest on investment as a manufacturing cost deserves consideration both for the principle involved and for its conspicuous usefulness in accounting practice.

The Principles Involved

Considering first the principles involved, we note that economists recognize capital as a factor of production and say that the return to those who furnish capital is interest. Another factor of production is management (service of the entrepreneur), and the return to those who manage is profit.

The fundamental distinction between interest for capital and profit for management is maintained through a long series of references to standard economic writings, and the reasoning of the economists is not at all confused by any question of who owns the capital.

Management must make outlays for wages and rates, and whenever the manager's capital is insufficient he must borrow. The sums paid by management to the capitalist are in return for the service or use of capital, just as wages and rent are paid for the services of labor or the use of land. If a manager is so for-

tunate as to own all the capital he uses, it is no less useful or serviceable on that account.

It seems strange that any difference of opinion should arise in applying these fundamental concepts, but much of current accounting practice departs from the standards of the economists, confuses cost for capital with profit for management, and sometimes reasons incorrectly about the return on capital both borrowed and owned. These errors arise chiefly because accountants constantly think and speak of "money invested" or "capital invested" instead of fixing attention, as do the economists, on physical assets as used in production.

Interest on Borrowed Money

The error has been frequently made in the past of reckoning the immediate outlay for borrowed capital as a cost; but if a proprietor has a physical plant and inventories to operate, the cost for using them is no greater because he is borrowing to provide some of these assets. Fortunately there has already been enough discussion of these matters among accountants so that mistakes are coming to be less frequent in the reasoning and accounting that relate to capital borrowed. Nearly every recent writer who has advocated the exclusion from cost of interest on investment admits that interest on borrowed money, whether secured by mortgage or otherwise, has no bearing on the issue, in either theory or practice.

The errors of reasoning chiefly arise with reference to capital owned, and the idea is frequently expressed in accounting practice and in accountants' writings that a proprietor gets the use of capital he owns without a cost to himself. The idea is not fully grasped, and seldom adequately expressed, that interest on investment is a charge to cost.

Confusion Between Cost and Profit

The confusion between cost and profit arises again and again, and frequently the argument that interest on investment is not a cost is based almost entirely on the *assertion* that it is a profit. Thus, A. Lowes Dickinson, C. P. A., declares in the *Journal of Accountancy* for August 1913, page 89: "The fundamental objection to treating interest and rent—which, except in so far as it includes compensation for services rendered, is only a form of interest—as an integral part of the cost of manufacture is

that all interest is in fact profit." This fallacy is repeated by every writer who alleges that there is an "anticipation of profits" by reckoning interest on investment into costs.

The same logical fallacy—of substituting assertion for argument or evidence—is involved in the declaration that the total return from an enterprise is to be considered as a profit divisible among the partners or "contributors" (Mr. Dickinson's term), namely: (1) the owners of the capital (other than land and buildings), (2) the landlord who has provided the land and buildings, and (3) the manager or entrepreneur. Obviously if interest on investment is profit, it is not cost, but let us have first an exact argument and sound reasoning as to whether it is cost, or profit. If the conclusion is that interest on investment is a cost, then wherever it appears, it is a cost that appears and not a profit.

Interest a Charge for the Use of Capital

Interest on investment is a cost and not a profit because it is a charge for the *use* of capital, and there is a cost for the use or service of capital just as for the use or service of labor or land. When attention is fixed on the fact that physical assets—plant and inventories—are in constant use, it is not hard to secure an agreement that the *use of such assets cannot be provided free*, and that to provide them must mean a cost to the one who makes this provision. If the management provides its own capital, the economic cost is no less than if others provide it. (Although Mr. Dickinson argues that interest on investment is not a cost, he correctly says, . . . "the manner in which capital is provided cannot affect the cost of manufacture.")[1]

Depreciation a Charge for Consuming Capital

Many writers say that depreciation is a charge for the use of capital. Thus, "an adequate adjustment in respect to the use of the machine is, or should be, secured through the charge for depreciation, or speaking more accurately the expired outlay upon productive plants."[2] And "Modern cost accounting does provide an adequate charge . . . for the use of manufacturing facilities by arranging for a proper charge to output for the depreciation caused by the manufacturing process. By this assessment for

[1] Quoted in *Journal of Accountancy*, May, 1913, by J. Lee Nicholson, from Mr. Dickinson's original article in the Papers and Discussions of the 23rd Annual Meeting of the Amer. Econ. Assn., April, 1911, p. 120.

[2] J. E. Sterrett, C.P.A., in *Journal of Accountancy*, April, 1913, p. 242.

depreciation . . . the entire capital investment is preserved without impairment."[3] Both of these quotations refute the argument they seek to make, for they both reveal the essential character of depreciation as a cost of *exhausting* an asset—*not a cost for* its *use unimpaired.*

Consider the analogy of a charge for the rent of a farm. Whatever the amount of that rent, the assumption is that the tenant will not exhaust the land, but by a reasonable rotation of crops and good use maintain its fertility. Even when he does this, and if he paid all taxes and insurance on the premises, he would still expect to pay something for the *use* of the assets placed at his disposal.

The analogy is perfect if one considers the rent of a city lot where there is no question of depreciation. If the tenant pays all the taxes, he would still expect to pay for, and there is a cost to someone to provide, the capital value that he uses.

The conclusion seems warranted, therefore, that, as a matter of correct principle, interest on investment is a cost for the *use* of capital, and that depreciation does not meet the requirements, since depreciation is a cost not for the *use* of capital but for the *exhaustion* or *consumption* of capital.

Practical Advantages

Every writer who has attempted anything like a thorough discussion of interest on investment admits that this element must in some way be included in the selling price. In other words, interest on the plant and inventories, which are the tangible expressions of the capital invested, must be taken into consideration at some point, for if the net profit resulting from trading does not exceed the amount which the capital might earn invested in standard bonds yielding ordinary rates of interest, then from an investment point of view the business is not worth while. The only question is then *at what point* interest should be included in the accumulation of a total cost to sell.

This brings us to an argument of utility or convenience, and the reasoning in regard to this important matter has been considerably obscured by constantly dealing in generalities, especially by the opponents of interest inclusion, who have never so far as the record is available, indicated clearly how they would deal with the practical problems which the cost accountant has to meet.

[3] Edward C. Gough, C.P.A., in *Journal of Accountancy*, June, 1913, p. 474.

Unit Costs for Continuous Process Industries

If the reasoning were confined to certain kinds of business, such as mining, transportation, or manufacture by continuous processes, like the making of flour, cement, pig iron, or wood pulp, it makes but little practical difference whether the desired information is secured by reckoning interest on investment into cost, or by leaving it out, and determining an average profit for the industry including a return on the capital. It does make a vast deal of difference, however, when one has to deal with the practical problems of cost accounting in most industries.

As Professor Cole says,[4] "No comparison is possible between different establishments, between different periods in the same establishment, or between different methods in the same establishment, if capital investment in labor-saving or material-saving machinery is neglected; for the very purpose of such investment is to save cost in other directions, and to neglect the capital sacrifice, made in saving other costs, is to neglect in part the very aim of cost accounting."

Space does not permit a *complete* exposition of the circumstances and the practical problems in management and cost accounting for which there is no satisfactory solution except by reckoning interest on investment.

Whenever it is desired (1) to compare the efficiency of alternative methods, (2) to measure the time element in costs, (3) to distinguish between the profits on two or more kinds of business (such as jobbing and manufacturing) by the same management, (4) to measure the cost of carrying inventories larger or smaller, or of more or less valuable material, (5) to record accurately the costs, and therefore the profits, of complete or incomplete plants (a machine shop with or without a foundry, an automobile factory making or buying its engines), (6) to compare manufacturing costs in owned or rented plants, (7) to compare the cost of power generated on the premises with purchased current, (8) to reduce varieties of financing to common terms, (9) to make a uniform cost plan for associations, the work cannot be well done unless interest on investment is reckoned as a factor in cost.

Business Policy and Unearned Burden

The inclusion of interest on investment in cost is an important factor in the determination of manufacturing and selling policy

[4] *Journal of Accountancy*, April, 1913, p. 234.

particularly during periods of curtailed production when part of a plant is lying idle, or in other words, when part of the capital is not producing. The principle is well established among experienced cost accountants that for each operation the normal burden should be determined based on normal activity of operation, and if a plant is not operating on a full schedule, the burden applicable to the idle time is a direct loss, and not an additional cost for the manufacture of the limited volume of output.

Current charges showing all the expense, including interest on the investment, of carrying this unused capacity for manufacturing are much more likely to arouse an executive or board of directors to action than a mere memorandum of approximate fixed charges, prepared as an estimate of the burden on unused manufacturing capacity. Since the determination of accurate rates for overhead or burden, and particularly sound reasoning in regard to these rates when they are determined, are about the most important functions of a cost department in a modern business, it seems clear that no pains should be spared to get the burden rates accurate, and particularly that they should be made to include all the recognizable costs of operation.

Bookkeeping for Interest on Investment

Since this paper is presented to a joint association of economists and instructors in accounting, it is pertinent to consider bookkeeping methods by which the interest charge may be calculated and applied to costs.

The method which is uniformly much to be preferred is that of determining the asset values of all kinds, wherever found, and calculating the interest thereon as a charge through the various channels of rent, equipment charges, inventory charges, etc., with a corresponding credit to an account known as Interest Charged to Cost, which is a credit each period to the Loss and Gain account, and as such is available for dividends, if not offset by losses of one kind or another. This method, in fact, is the only one that can be worked out in a practical way in an industrial establishment that requires careful analysis and subdivision of its overhead charges or burden.

The "Net Investment" Method

The other method is applicable to trading establishments (with only one kind of inventory, so that it is not necessary to reckon

fixed charges on different classes of the business) or to the very simplest manufacturing conditions. According to this method, interest charged to cost or expense will be divided between interest on borrowed money and interest on capital owned. The interest on borrowed money is interest on bonds, notes, and accounts payable. Interest on capital owned, *as a charge complementary to interest on borrowed money,* is reckoned on the "net investment" in the business, that is, on the difference between the sum of the assets—cash, notes and accounts receivable, raw materials, work-in-process and finished goods inventories, prepaid interest, insurance, etc., and the sum of all the liabilities—notes and accounts payable and all accrued items. (The reader will note the omission of plant and equipment assets.)

When this second method is used, the charge to cost will come in two parts: first, as interest is reckoned and paid for borrowed money; and, second, an amount by a journal entry, reckoning at the agreed-upon rate of interest on the net investment as above defined. The interest on the borrowed money will be a cash disbursement, when the interest is paid; the second part of the entry will be carried, as in the first method, as a credit to an income account known as Interest Charged to Cost.

A theoretical objection to reckoning the interest charged to cost in two parts in this way is that it involves the use of two rates, one of which is bound to fluctuate from time to time, as the current market rate for business paper goes up or down. This introduces a variable element into the calculation which is objectionable, particularly when uniformity is sought in accounting for an entire industry; as two business enterprises, otherwise substantially alike, may be financed so differently that one will have much of its interest charge derived from borrowed money, and the other will have none from that source, but all the interest cost reckoned as a rate on the investment. It is fundamentally correct to say that "the dollar owned does just as much work and should be compensated as is the dollar borrowed"; but since that is true, they should be compensated *alike* when used in the same business. As that is impossible according to the "net investment" method, with one or more rates on borrowed money and the agreed-upon and probably different rate on the net investment, it seems that that method should be abandoned in favor of one that does not involve such inconsistency.

Another very serious objection to this "net investment" method,

even within the limited field in which it can possibly be applied, is that it can rarely be used unmodified. In the Harvard System of Accounts for Shoe Wholesalers, published in the summer of 1916, there is the most authoritative exposition of this method known to the author, and there the reader will find that interest on land and buildings is specifically excluded from the "net investment" calculation, for the good and sufficient reason that it is a charge to a Rent account, which must be set up *completely*, and *independently of other expenses*, if any comparison is to be made between businesses which operate in premises owned and businesses which operate in premises rented. This difficulty would be much more serious in a manufacturing establishment, where interest on the investment must be reckoned for the equipment, usually in several different subdivisions, and on three, or perhaps four, different kinds of inventories.

Even in a merchandising business, such as wholesaling shoes, the plan as defined breaks down, to the extent that further exceptions must be made, if the proprietors are interested to get an accurate measure of the results between selling shoes, for example, and rubber footwear, which most of these establishments also handle. In a business like wholesale hardware it would be indispensable to reckon fixed charges on inventories by classes, in order to measure the results in a satisfactory way. Whenever fixed charges require any considerable division the "net investment" plan breaks down completely.

Whenever an attempt is made to use this method *attention should be fixed on the sum of the two charges*, namely, interest on borrowed money and interest on capital owned. If the business operates with extensive borrowing, the interest charge on that account will be large. If the owners have provided most of the capital, most of the amount charged into cost will be credited to the account Interest Charged to Cost, and then to Loss and Gain.

Some Objections Answered

The distinction of leadership in opposition to the inclusion of interest on investment as a charge to cost has generally been accorded to A. Lowes Dickinson, C.P.A., who presented his views some years ago before the American Economic Association. This article with some supplementary material was reprinted in the *Journal of Accountancy* for August, 1913, and is one of the ablest statements of the view that interest on investment is not properly

an element in manufacturing cost. Mr. Dickinson presents the same views in his well known book on *Accounting Practice and Procedure.*

Interest and Rent

By the same reasoning that supports this view, Mr. Dickinson reaches the conclusion that rent also should be excluded from manufacturing cost. This opinion will probably be condemned without discussion by any business man who has realized the stern necessity of paying rent in order to continue his manufacturing or other business operations.

Some emphasis on the landlord's functions, in fact, is pretty certain to convince a manufacturer that he has not reckoned on the whole cost of his operations with buildings and equipment owned until he has set up the accounting equivalent to what his landlord would have if the manufacturing operations were being carried on in rented buildings, or with leased machinery.

The landlord has to pay insurance, taxes, and repairs, unless these charges are assumed by a tenant as part of the terms of the lease. He must incur the loss from depreciation. Even the most liberal repairs will not entirely check the deterioration and obsolescence of a structure. It may serve well for a generation or longer, but the time surely comes when because of structural weakness, or the superiority of modern design or a better location, it cannot be used economically. This lack of fitness is essentially a landlord's risk.

The landlord expects, if possible, to charge as rent enough to make his property pay a fair return on the investment. If the title passes in course of time to the man who has hitherto been the tenant, does it cost him any less—in any sense, either practically or as an economic theory—to make shoes or shirts, furniture or machinery in that building because he now owns it? It is true that he no longer pays in cash the landlord's charge, but can anyone contend that his product is manufactured cheaper than before? The answer is a self-evidenced negative.

It is certainly an excursion into the depths of economic theory thus to compare interest and rent. In the article referred to, Mr. Dickinson places a footnote which reads, "It may be well to mention here that rent may include something more than interest, in which case a part thereof may properly be included in cost, and further that in the case of office rent, convenience and the relative unimportance of the amounts may sometimes justify their inclusion in the cost of production or selling, usually the latter."

The reader who will refer to Mr. Dickinson's article will see that although he speaks of rent, or rentals, as merely a kind of profit, and on that reasoning not chargeable into the cost of manufacturing, the footnote makes some recognition of the fact that certain expenses of doing business frequently comprised in the term *rent*, such as insurance and taxes on the buildings or rented equipment, and also depreciation and repairs, are inevitable items in a charge to cost, because of their actual and unavoidable character, which finds expression in the ultimate disbursement from the cash drawer.

The footnote refers to a paragraph in Mr. Dickinson's article in which he speaks of the landlord as a partner in the business. It seems to the present author unsound in theory and wholly impracticable to regard a landlord as a partner in a business in respect to the capital he has invested, but not in respect to the taxes and insurance that he pays, his outlay for repairs, or his loss through depreciation. Practical common sense seems to say that the landlord is a creditor rather than a partner or "contributor" (Mr. Dickinson's term) to the enterprise, so that what is paid to the landlord is clearly a cost.

Inflated Inventories

The objection is often made that to reckon interest into cost "inflates" the value of an inventory. This objection is a part of the same fallacy which alleges that interest is a profit, for if interest on investment is shown to be a cost, it logically and properly raises the value of manufactured goods as much as any other cost, and there is no "inflation" by including it in the inventory.

Now any inventory of manufactured goods has used capital, frequently in huge quantities, in the process of conversion from raw material to finished product. It has also used capital in the possession of the producer before coming to the manufacturer, and the purchase price to him is higher accordingly. If it has used capital it therefore has, indisputably, a greater cost. If the manufacturing business has been sensibly managed, the product is worth what it has cost in capital in its last stage (manufacturing), just as much as in any previous (producing) stage. To be specific, the capital cost of converting seasoned lumber into furniture is just as inevitably an addition to its cost, and just as fair an addition to its inventory price, as the cost of seasoning it beforehand.

In short, it takes capital to manufacture, more or less capital according to the kind of product made, and according to the manufacturing policy pursued. Frequently a liberal use of capital diminishes other costs, and the too meager use of capital increases other costs. Interest on investment is the conventional and logical way of expressing capital cost.

Accepting an arbitrary charge for depreciation as a good asset in the cost of manufactured goods, the logic seems unavodiable that there is no greater objection to an arbitrary charge for interest. Why is not one kind of cost as good an addition to value as another?

There is, therefore, no reason why an inventory should not be carried *at all its cost*, including so much thereof as may be due to interest on the investment employed.

While we are on the subject of inventory values, let us consider how trivial in comparison with some real inventory weaknesses is any possibility of "inflated" costs because of a calculation of interest on the investment. Accountants of high standing who object to reckoning interest on investment are known to the writer to have passed with approval inventories in which goods were taken higher than in the preceding annual inventory, because, forsooth, with a curtailed volume they "cost more to make" during the later year than during the earlier. In this proceeding we have an expense which is not in any proper sense cost-to-manufacture unhesitatingly added to inventory values "at cost."

Situations like this reveal most conclusively the fallacy of the old-fashioned plans of charging all burden into cost, or if a normal burden is first calculated, the mistake of adding a "supplementary rate." If the product of a plant is sold as fast as it is manufactured, there is no difference in the *net profit*, according to one plan or the other, but if inventories are changing in volume, there will be a very real inflation of profits and assets with an increasing inventory, and a very poor and unreal showing of profits per volume of sales during a period of diminishing inventories.

All accountants will agree that it is highly desirable for a correct view of profits that the inventories be priced correctly, especially so if there are fluctuations in the volume of inventory from one closing to another. If the custom is to overvalue inventories, profits are obviously overstated in periods when inventories accumulate, and understated in periods when stocks di-

minish. If it is the practice to undervalue the inventories, just the reverse effect is produced.

If it is desired to have the inventory conservatively stated in total, it is altogether better to make a suitable reserve to accomplish that result, rather than to leave out essential and calculable elements in the cost.

Auditors not skilled and experienced in industrial accounting certainly encounter difficulties in trying to decide on the significance and sufficiency of much that passes for cost accounting. The errors of this kind, committed in good faith but in blissful ignorance of realities, are likely to far outweigh any possible overvaluation resulting from debatable elements in a scientifically calculated cost.

Let no one infer from these remarks that the writer underestimates the importance of being conservative in valuing inventories. Accountants should strive zealously to see that items or values that do not belong in the inventory are excluded. There may be many considerations to influence the adoption of a price below cost on inventory items, or a liberal reserve against the total, or important sections, of the inventory. If there are good reasons for such action in a given case, by all means observe them consistently, but if cost is the basis, by all means get it *all* in.

Alleged Difficulty Regarding the Rate

An objection raised by those who oppose the inclusion of interest on investment is the difficulty of deciding as to the rate that should be used, but the argument on this point is really part of the confusion between interest and profit.

There will be no great difference of opinion among well informed people as to what is a fair investor's rate with proper security for principal and income and reasonable marketability. The Harvard Bureau of Business Research recommends the use of "the ordinary interest rate on reasonably secured long-term investment, in the locality in which the business is situated. In measuring the result of his business, as has already been pointed out, the business man, if he thinks about the subject at all, computes the amount of interest which his capital would earn if he invested it in something else. The Bureau has determined from its inquiries that there seems to be in each locality a definite idea as to what constitutes a current rate of interest."

It might well be added that the rate of depreciation is as diffi-

cult to determine, and as a matter of practical experience a group of business men are better informed and can come nearer to agreeing on a suitable rate of interest to charge than they can on suitable rates of depreciation.

As to the validity of an interest rate to be used in cost accounting, nothing more is required than that it should be reasonable and *agreed upon* by the persons concerned. This is particularly true when a group of competitors are interested in establishing a plan of uniform accounting.

Significance of the Rate Chosen

One of the most technical and scholarly articles that has ever appeared in opposition to the inclusion of interest on investment as a charge to cost is that by George O. May, C.P.A., in the *Journal of Accountancy* for June, 1916. Mr. May's article is given over chiefly to a discussion of the rate that shall be used.

The principal argument against the inclusion of interest in Mr. May's article is based on a confusion between the returns on capital and the returns to the proprietor for his skill or risk. It is a mistake to refer, as Mr. May does, to "compensation of the proprietor's capital." The returns for the proprietor's *capital* can be reckoned by other standards with considerable accuracy, and whatever else he gets is a return for something besides capital.

Another opponent of including interest, W. P. Hilton, C.P.A., writing in the *Journal of Accountancy* for October, 1916, speaks of adopting a plan whereby the "reasonable expectancy rate" is made a factor of expense.

We can also accept Mr. Dickinson's statement that "if any interest rate is to be assumed, it can only be a rate which represents a fair compensation for the use of the capital." It is true that proceeding from this point Mr. Dickinson argues that in the compensation for the capital there is involved a large and important element of risk, and any argument on this point must admit that there is no interest rate in practice which is entirely free from risk. The current rate, or reasonable expectancy, however, is generally understood among business men.

How Business Men Regard Interest on Investment

In the arguments of Mr. Dickinson, Mr. May, and others who oppose the inclusion of interest, reference is made repeatedly to the return on the investment in a given industry. Nearly every

accountant would agree with Mr. May when he says, "The rate which will attract capital into an industry would seem to be one of the things which accounts should help to determine . . .," but the rate which will prove attractive in a given industry can be determined with even greater clearness by charging interest into cost than by leaving it out.

If the attention of prospective investors is fixed on the probable rate of return on capital embarked in a particular enterprise, it seems certain that they will make a comparison between the conventional investors' rate and the amount that they can expect to earn from the investment in question, or, in other words, *how much better they can do in the new industry* than with their capital invested as it is.

Capital has a fairly well-determined market value, but loss or gain is a function of management. Men may be more or less successful, have more or less good luck, but irrespective of these considerations, they have an inevitable fixed charge for capital, just as inevitable as a fixed charge they would have for rent if they were engaged in business using leased property.

When reference is made to "that rate which will attract capital into an industry," on a premise that interest on the investment is excluded, the reasoning is that the total net business return is a residue. This is the idea which the modern economists refute when they insist that the charge for capital shall be paid first, and that the residue shall be profit only.

The Government's Attitude Towards Interest

Prior to the war, the principal official statement on behalf of the United States Government in regard to the treatment of interest in costs was in a pamphlet published by the Federal Trade Commission under date of July 1, 1916, "Fundamentals of A Cost System for Manufacturers."

Under the subject of building expense, page 11, the pamphlet says: "Rent includes a return on the investment in addition to the items named (the items named were insurance, taxes, depreciation, repairs, heat, light, elevator and janitor service, and water). So when it is desired to make comparisons between plants where the building is owned and where it is rented, the return on the investment must be taken into consideration." Since this comparison is one that must frequently be made, it was helpful to have the Federal Trade Commission express the correct view so concisely.

In a passage amounting to a page of fine type on the general subject of interest, the Commission said, "The cases where it is desirable to include interest in cost may be grouped under two heads:

"1. Where materials have to be stored for long periods while a seasoning process is being completed.

"2. Where it is desired to show the effect of variations in the amount of capital employed and the term of employment."

Regarding a seasoning process the pamphlet says, . . . "the interest on the capital locked up during the seasoning process forms in a sense a direct part of the cost of material. If the material were purchased in a seasoned condition, a higher price would have to be paid, and this price would at least include interest and other carrying charges."

Regarding expensive equipment and the length of time to complete various processes, the pamphlet says, "It is impossible to get true relative costs unless consideration is given to interest on the capital employed."

Interest in War Contracts

The definition of cost has been an important practical problem for various government departments since the United States entered the war in the spring of 1917, and in respect to interest on investment the situation has not been well handled.

In the summer of 1917 a pamphlet was issued containing the recommendation by an Interdepartmental Conference on Uniform Contracts and Cost Accounting Definitions and Methods. Among the items included in a "general definition of cost" was "a fair proportion of overhead expenses."

As the general definition of cost was originally drafted, interest was excluded, *but not rent*, and in a letter of protest distributed by the writer under date of August 8, 1917, the comment was made that "the practical result of allowing rent and disallowing interest is that a manufacturer in a rented plant reckons in his bookkeeping cost economic factors which the manufacturer who owns his plant is required, by the proposed regulations, to eliminate. There are enough manufacturers in the United States operating in rented plants to justify the statement that this proceeding is a *grievous injustice to the men who are operating in plants that they own.*"

Regarding the exclusion of interest on investment, this same

letter of protest included the following comments: "To exclude interest on the investment, furthermore, operates to the practical disadvantage of the manufacturer who is conducting a business including all the processes from the initial conversion of raw material to the finished product, in contrast with a manufacturer who buys a great many manufactured parts and whose product, similar to his competitor's in other respects, is largely made by assembling. The second manufacturer naturally treats his purchases of parts as material costs, and he necessarily acquires them *at a price which has included profits equivalent to or greater than interest on the investment* to the previous manufacturer who produced them. A manufacturer who, instead of buying and assembling, plans comprehensive detail manufacturing for every step that his finished product requires, should not be penalized on that account in stating costs and reckoning profits thereon."

When the pamphlet was finally printed it read, "By the term 'overhead expenses' is meant the indirect labor and other manufacturing expenses, and the general and administrative expenses applicable to and necessary in connection with the production of the article contracted for hereunder. It does *not* include (among other items) the following: *Interest, rent,* advertising, collection expenses, credit losses and customers' discounts, and such taxes as income and excess-profits taxes imposed by the United States Government (interest, rent, and selling expenses, will not be allowed as part of the overhead cost but may be the subject of special compensation when so stipulated in the contract)."

We have no knowledge of reasonable rent charges being thrown out of government contracts during the years 1917 and 1918, but numerous instances have been reported of interest on investment being excluded. This method of handling the contracts has given an important and unfair advantage to the manufacturer whose product is largely assembled or who is renting buildings or equipment.

Significance of Turnover

It should be clearly understood that the issue raised in respect to government contracts is not one of more profits or less. When the manufacturing cost has been correctly determined, it may be fair to the manufacturer to give him a 10 per cent profit, or it may be that he should have more than 10 per cent on goods which take a long time to manufacture and accordingly have a slow

turnover, or perhaps a great deal less than 10 per cent on goods which have a rapid turnover.

The statement is familiar enough to accountants and students of business affairs that a rapid turnover increases profit, or makes possible a smaller margin of profit on individual sales. Analyzing this situation further, it is seen to be in substance merely that the business with the rapid turnover uses the capital in question a much shorter time between the purchase of the raw material and the sales.

The Relation Between Capital and Labor

In Mr. Dickinson's original article, which bore the title "The Fallacy of Including Interest and Rent as Part of Manufacturing Cost,"[5] he touches on the relation between capital and labor in the following terms, "The only rate which could be justified in argument would seem to be that inasmuch as the capitalists have charged into costs and obtained for themselves the rate *which they might think they ought to realize on the whole business* (italics are not in the original), the balance of it, which under such a procedure would be called profit, does not belong to them at all, but to those who purchased goods from them, to the general public, or to the government. This is an argument which would hardly be admitted by a manufacturer." This passage quoted from Mr. Dickinson's article requires a restatement to correspond with the facts in the business world. It is not intended, by those who advocate interest in costs, that capitalists should charge into costs, and obtain for themselves, the rates which they think they ought to realize in *a particular business*, but rather that they should charge into cost the rate which they ought to realize *from any business use of capital*, and that they are entitled to something in addition to that rate for the *risk* that they incur *for running the particular business in question.*

In an introduction accompanying the reprint of this original article, Mr. Dickinson says: "If any interest rate is to be assumed it can only be a rate which represents a fair compensation for the use of the capital. If the selling price or rate yields a profit over and above the cost of material and labor, a fair return on the capital employed and fair compensation for management, it would seem that to the extent of this profit the price charged is excessive, at least where the manufacture is not conducted under some patent or other special process for which a further com-

[5] *Journal of Accountancy*, December, 1911.

pensation may fairly be exacted. This is not a conclusion that a manufacturing or public service corporation whose prices or rates are attacked can afford to admit, more especially as those attacking the rates are not bound by the interest rate adopted, as the corporation might be."[6]

There may be some doubt in the minds of the general public as to what is a fair compensation for management, but there can be no doubt that any article or service provided for the public must be paid for at a price which will include the cost of material, labor, and burden, and a fair return on the capital employed. It seems almost certain that if these factors are set forth clearly, the argument will take shape much more rapidly in regard to the fair compensation for management. It is generally true that the more clearly a case is stated, the more quickly is it understood, and a conclusion reached equitable to all concerned.

This argument involving a calculated return on capital and a reward for management is taken up more in detail by Mr. George L. May in his article in the *Journal of Accountancy* in June, 1916. Mr. May says: "Upon any great question the tendency must be to reduce the issue to the simplest terms. The fair disposition of the results of organized industry is one of the greatest of questions, and the issue here is reduced in the public mind to one between labor and capital—everything that does not go to labor is regarded as going to capital. The elements other than labor entitled to compensation may in the economic mind be subdivided, and the economist may attempt to differentiate between pure interest, compensation for risk, the reward of the entrepreneur, etc., but in the public mind and for practical purposes these elements are combined in capital. Moreover, in general, once an enterprise is launched these elements are vested in the same body of individuals, so that the fact that the isolation of the elements is not possible except in theory does not cause any difficulty in practice."

There may be difficulties, as Mr. May says, in interpreting to the public mind the "differences between pure interest, compensation for risk, and the reward for the entrepreneur." Mr. May realizes, of course, that whenever there are bondholders of a corporation the capitalist element in that enterprise is not wholly "vested in the same body" as the management, and that distinction applies more or less when there are preferred stockholders. It is

[6] *Journal of Accountancy*, August, 1913, p. 90.

surprising to read that if no interest is charged on capital, it is thereby easier to establish the claim of capital as one that must first be satisfied from the residuum of conducting business.

In fact, a writer none too friendly to the idea of interest on investment, namely, Mr. George Mahon, makes a very different interpretation of the business man's interest from that made by Mr. Dickinson and Mr. May. Mr. Mahon's view is apparently that the inclusion of interest in cost tends to insure to the capitalist at least a part of the return to which he is entitled, provided of course that there is something to divide.[7]

This discussion touches on the issue which is at present raised between the Labor party in England as represented by Mr. Arthur Henderson, and the Women's party as represented by Mrs. Pankhurst. The Labor party would apparently insist on labor having a large share of all that accrued in the way of earnings from a business after an established minimum of returns has been accorded to the capitalist. Mrs. Pankhurst, on the other hand, says that the able managers of the business are entitled to a large return for their management, recognizing that at present only such large rewards will induce the skilled accomplishment which society needs from these experienced managers, in order to bring the total production of the community to its highest point.

Whichever view is taken as to how the division is made, it seems a fairly safe prediction that the reasoning and sentiment of the community will rather steadily advance towards that simplification of the terms, and better understanding of the argument which is accomplished by reckoning interest on the capital as an undisputed minimum of return, and therefore limiting the debate to the profits, if any accrue, after the capital return has been provided for.

[7] See *Journal of Accountancy*, October, 1916, p. 255.

INTEREST ON INVESTMENT AS A MANUFACTURING COST FACTOR—DISCUSSION

Lewis H. Haney.—1. *Argument based on assumed identity between economic and business costs.*—Mr. Scovell's first argument may be stated to be "the argument based upon an assumed identity of economic cost and business cost." The two concepts, however, are very different, and cannot be made the same. The accountant deals with a particular business concern. He takes what to the economist is a short-time point of view. He is concerned with the financial results of the particular concern. To the accountant price equals cost plus profit. The economist, on the other hand, deals with a whole society; he does not even confine his attention to business, let alone a single business concern. He is concerned with long periods of time. Financial results only interest him indirectly, as his ultimate interest is in wants and sacrifices. In economics price equals cost,—even profits is regarded as a share in distribution which the entrepreneur must have.

Mr. Scovell says that if the management provides its own capital, the "economic cost is no less than if others provided it." This statement is absolutely true; but it concerns economic cost only. The question at issue is accounting cost. The sacrifices of saving and waiting are present; but is there any interest or investment in the particular case with which the accountant happens to be dealing? As a matter of fact, no interest at all may be earned. If there is any interest it is not an expense to anyone, but is income to the owner.

2. *Arguments based on analogy between interest and other shares in distribution.*—Mr. Scovell, in his paper, states that there is a "cost" (sic) for the "use or service" of capital, just the same as for labor or land. But the capitalist owner does not pay for the use of his own capital, while he does incur actual expense for hired labor and land; and I maintain that the fact that there is actual outgo in the latter case makes a difference which for the accountant is fundamental.

Another difference lies in the fact that if he did not pay his hired laborers their wages, they would stop the works; while no such result would follow if his accountant should not enter an interest charge on the books. My point is merely that these things constitute a difference, and controvert the argument from analogy.

Especial reference is made to the analogy betwen interest and rent. On this point I do not concede that interest and rent are the same. Land is different from capital; it is a non-fungible element which is not

fused in the plant and equipment account as is capital, but remains separate and liable for specific delivery. This fact finds expression in the further fact that the rent contract calls for an actual outgo that is entirely independent of the net earnings of the business, which is not true in the case of interest. The case of a tenant farmer is referred to; and it is inferred that, because he pays rent, which is to him a cost, therefore interest is a cost. Now in the first place, it is to be noted that rent is not a cost in economics, and that the analogy between economic cost and accounting cost falls to the ground in this regard. But the point I would make is that the rent is actually paid out, by the tenant, and must be paid before the net earnings of the business can be known. Furthermore, the difference between money rent and share rent illustrates my point. If money rent is referred to, the rent payment presumably represents outgo to a completely separate owner, who stands in a sense opposed to the farm business; and accordingly the rent is cost to the business. If, however, share rent is referred to, the amount of the rent depends in part, at least, upon the net earnings of the business. Therefore, the farm owner is not entirely separate from the business of the tenant, and rent and profit can not be separated.

Mr. Scovell states that if a tenant buys his farm and becomes an owner, the costs of production remain unchanged; but here I would point out that he is again shifting from accounting cost to economic cost. It is economic rent which remains the same, and would remain the same even if the first owner had given the tenant the *use* of the farm rent free. Furthermore, please note that rent as an outgo from the business does cease when the owner and the former become the same person. It may be asked, "Does it cost the owner any less than the tenant to produce the same crop?" Other things being equal, the owner does pay out less. He has smaller outgo to account for on his books, and does this not mean a lower "accounting cost"? The economic cost, however, is actually greater, by the amount of the sacrifices involved in saving the capital invested in the farm. In fact, under competition, the economic cost of the capital invested in the farm just balances the capitalized rent which the tenant formerly paid. The *income* of the owner is greater than that of the tenant. This may be explained in either of two ways: (1) the owner's greater income is a reward to cover the costs involved in the investment; or (2) it may be said that his income is greater because as owner he does not have to pay the rent which was an outgo cost to his as tenant. The two ways of looking at the matter are reciprocal.

Let us examine the method which Mr. Scovell recommends for making "interest on investment" look plausible on the books as cost. It is proposed to take the following steps:

1. Take the *value* of assets as the basis.
2. Calculate interest thereon at some rate not stated.
3. Devise charges for interest which will spread this estimated interest on investment over the various parts of the investment, making "charges" for rent, equipment, inventories, etc.
4. Offset these charges by setting up an account called "Interest Charged to Cost" (but which is really "Accrued Interest estimated to be earned in the Business"), to which account the charges are credited.
5. Close this interest account into Profit and Loss, the amount being available for dividends "if not offset by losses."

To me this scheme looks like a subterfuge. The end is clearly to get some interest into the Profit and Loss account where it will be available for dividends. Are dividends, then, interest? It would result in making some interest seem to be earned by merely crediting income with an estimated amount and justifying that amount by charging it to cost. In reality, a part of the time called interest is profits.

But little is said in the paper under discussion of the analogy between interest and profits. Did time permit, I would point that in economic analysis price must cover profits, while in accounting profits depends upon price. I will merely state, however, that much of the argument advanced for including interest in cost would apply to profits. It may equally well be stated that profits is "cost" for the use or service of the business enterpriser; or that profits have to be received if the business is to be "worth while."

I conclude that interest on investment and profits are inseparable *in accounting.* In economic theory the two are separate. But as long as capitalist-owner and entrepreneur functions are so intertwined as they are in the business world, the returns to the two can not be divided as items of expense. In fact, bond interest is partly profits, and dividends are partly interest. The net earnings of the owner-entrepreneur are a mixture of interest on investment and profits on enterprise.

3. *Argument based on "opportunity cost."*—Mr. Scovell states that "if the net profit resulting from trading does not exceed the amount which the capital might earn invested in standard bonds, yielding ordinary rates of interest, then from an investment point of view, the business is not worth while." Note the "opportunity cost" idea which is here presented. The argument is that interest is cost, because the capitalist-owner might have got interest if he had invested his capital

in some other business. The poet says that the saddest words are: "It might have been." And accordingly I would dub this concept of cost the "sad words cost." It is only necessary to call attention to the fact that the accountant is concerned, not with what might have been, but with what is. If the business, whose life history is recorded, is a failure, and does not even earn interest, no amount of modern cost accounting work can change the situation. Interest has not been earned; has not been paid; and cannot be paid. If every business man were to enter on his books as costs the sums which he might have made, we would have an impossible situation.

4. *Argument based on general productivity of capital.*—Mr. Scovell confuses capital in general with the particular capital invested in a particular business. It is true that the economic factor, capital, must and does receive interest. It does not follow, however, that the capital invested in every business must or does receive interest.

The fundamental error in Mr. Scovell's paper is his assumption of some rate of interest which all capital ought to have and which ought to be allowed for the "use" of any and all capital. The rate of interest is something which is not to be taken for granted; and interest is not earned by all capital goods. The interest rate has to be determined by demand and supply forces; and what rate will apply to any particular business can only be known after interest has been earned. The assumption that capital in a given business might have earned 3 per cent, or any other per cent, in some other use, is gratuitous. Indeed, if all capital were to seek investment, even in government bonds, it would go begging.

5. *Arguments based on policy.*—A chief point made in the paper is that it is desirable to include interest in cost as a matter of business policy. This point, of course, might be dismissed with the statement that we are not concerned with policy, but with fundamental principles and truth.

This matter of business policy raises the question in my mind as to what the motive is for the movement towards including interest in cost. Doubtless the motive is in part to educate irresponsible business men, the idea being to prevent unreasonable price cutting and to establish a wise selling policy. As Mr. Scovell says, the inclusion of interest on investment in cost is an important factor in determining the manufacturing and selling policy. This motive may be commendable and socially unobjectionable. It is to be noted, however, that this by no means constitutes an argument for putting interest into cost. To obtain the end desired, it is only necessary that some estimate of in-

terest be made and that the business man make bargains with some regard to that estimate. At the end of the fiscal period, the net earnings will show what interest and profits have been earned.

Again, it may be desired to figure in advance what prices will have to be secured in order to warrant the use of certain estimates for comparative purposes, and some good may come therefrom, although I am inclined to think that the results would tend to mislead, rather than give correct information, and certainly might do so.

Or the aspiration may be to square the circle and to harmonize economics and accounting. This, however, is impossible. There need be no conflict or inconsistency between the two any more than there is between the society and individuals. But the two are by nature different. And economic cost and accounting cost cannot be made identical.

Other motives exist, however, which are more sinister. During the last few years, there has been a general tendency in the business world to eliminate competition in price. We have had an organized propaganda for the maintenance of resale prices on manufactured articles; we have had a movement to allow the value of raw materials from property owned by the producer to go into cost, by charging depletion and depreciation, not on a cost basis, but on a value basis. We find many accountants standing for the value of the investment, as a basis for price fixing, etc. And Mr. Scovell, I judge from his paper, would stand with such accountants. Also the portentous growth of associations in all industries is a well-known phenomenon; and these associations generally center in the idea of what is called "uniform systems of cost accounting," a phrase which may mean systems of uniform costs. Now comes an effort to put a fixed return on investment into cost. Where will it all end?

Are we to reach some advanced economic stage in which the "industrial engineers' " art will enable the tired business man to sell "at cost" and still receive a return on his investment?

6. *Government authority.*—With regard to Mr. Scovell's reference to the Federal Trade Commission, I can only say that the quotations presented merely indicate that to a limited extent, for comparative purposes, the Commission indicated that interest and rent might be "considered." The pamphlet quoted does not state that interest is cost.

I would further call attention to the fact that in all its numerous reports made to the Price-Fixing Committee, the Commission has excluded interest from cost. I cannot but feel that Mr. Scovell has gone too far in citing the Federal Trade Commission as a sponsor for the idea which he is defending.

Summary.—The gist of my remarks may be summed up as follows: It is fundamental to recognize the impossibility of making the accounts for a particular business square with the distribution of the social dividend. In a word, social economics differs fundamentally from private business.

With this general background, my reasoning is as follows: Interest may in a sense be called cost by the business man; but in any case it is very different from outgo cost for wages, material, depreciation, and the like. The question is therefore one of wise definition, my conclusion being that it would be unwise so to define cost as to include interest.

1. Interest is not cost in the economic sense.

2. Interest may be cost in the private acquisitive sense and might be treated as cost by an accountant. But if "interest on investment" is so treated it would be but a hypothetical book entry which would be liable to abuse. There is no general assumption to be made that interest will be earned in all cases. It may not be earned at all; it may be earned on a part of the investment; or a very low rate only may be earned on the entire investment. In any case it is practically impossible to separate interest and profits.

3. To be used in real accounting costs, therefore, interest must represent actual outgo.

4. The outgo must be real; that is, it must represent payment to parties not connected with the business and must be independent of the net earnings. If interest is actually paid, and is paid for the use of capital, the owner of which is absolutely dissociated from the business—that is, if he is a mere capitalist—then that interest payment may be regarded as true cost.

No objection is to be made to the estimation of interest for comparative purposes; but such estimate should be recognized as being hypothetical and not outgo cost, and as having no significance as determining competitive prices.

EFFECT OF GOVERNMENT CONTROL ON MARKETING METHODS AND COSTS[1]

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Before modifications were made or attempted two views were prevalent concerning the marketing situation. The first was the view held widely by the people who are dominated largely by the instincts of the reformer, the people who want something done, but who may not know just what. This class of people have strong convictions that the marketing system is hardly a system at all; that it is, to speak mildly, chaotic. Many who used less moderate language characterized it as robbery, organized and unorganized. Middlemen were wicked, producers and consumers were a set of dupes, victimized by anyone and everyone who bought from or sold to them. The only hope for improvement was in revolutionary methods whereby the machinery of trade should be taken out of the hands of those engaged in it and controlled by those whose interests, either as producers or consumers, are involved.

The second view was held by the *laissez-faire* thinkers who believe that while the market may be somewhat chaotic, the reformers are quixotic, and thus the least done, the soonest mended. This *laissez-faire* class is impossible of designation, being found in all walks of life, and in every avenue of industry. It is safe to say, however, that those most likely to be disturbed by the reformers are, as a group, most favorably disposed toward the consoling doctrines of *laissez faire.* They are convinced that there is an adequate business reason for the apparent waste in shipping wheat from Kansas to Minneapolis, and from Minnesota to Kansas City at the same moment. They are confident that the packing interests would not have been so concentrated had it not been for the economic good of the country as a whole. They justify the Standard Oil Company on the ground of efficiency, and the wasteful method of delivering groceries on the ground of catering to the wants of fastidious customers who must get their money's worth, or, forsooth, they would do their trading in some other manner.

[1] This paper is in the nature of a preliminary sketch of work which is being done by the Committee on Markets, of which Prof. L. D. H. Weld is Chairman. It is planned to publish the completed reports as soon as they can be prepared.

As usual the truth is to be found somewhere between these two extremes. Thus the scientific investigator is sure in his findings to lack the fire and heat of the reformer, and yet to incur the displeasures and contempt of those who are convinced that marketing men are wholly competent to cope with marketing questions and that any interference from the outside means so much needless friction and expense.

With the entrance into the war in 1917, the federal government undertook, through the Food Administration and the Bureau of Markets to meet the exigencies of the case. The efforts in regard to marketing took one or more of three forms: (1) control over the goods to be marketed, (2) control over, or influence upon, prices and profits, (3) control over the processes of the market. These controls were made possible through a series of licenses imposed upon the agencies of commerce. The notable instances involving more or less of each of these principles are the control of wheat, flour, sugar, coal, wool, and in a much modified sense the control over meat and dairy products.

Control Over The Goods

The control over goods was made possible through the creation of a government grain corporation in the case of wheat; a purchasing agency for meat, and meat products; sugar was controlled by a national sugar committee which coöperated with an international sugar committee; regional milk commissions with virtual price-making power were appointed. All of these agencies were under the authority of the Federal Food Administration. Through the same channel the wholesale trade, and the retail businesses reaching $100,000 in annual transactions, were subject to a system of licensing. The Fuel Administration was separate from the Food Administration, but quite similar in its workings. Coal prices were set, and the distribution of coal controlled.

Actual, and well-nigh complete, control was exercised with respect to wheat, flour, sugar, coal, and wool. Control was possible in these cases while it was hardly so in others. For example, wheat could be controlled through exportation and milling primarily. The sale of flour depended on the coöperation of the retail trade and the consumers to a great extent, yet the machinery was eventually well perfected for requiring the sale of substitutes in equal quantities with wheat flour. Control of meat and meat products so far as export trade was concerned was complete. The control of the domestic use of meat was far from

complete. In fact it was all but impossible to control the consumption of meat due to the wide distribution of meat animals over the country.

The sugar control was relatively easy of administration on account of the method by which it is brought on the market. A large part of the supply is imported and hence is centered in a few hands, while that which is made in this country goes through a relatively small number of factories. Thus the government could begin at the source and keep the sugar in hand till it reached the retailer, and in case the retailer failed to live up to the requirements further supply could be withheld from him.

One of the best instances of control is that of coal. Coal is a prime necessity. It is produced in relatively few places, all of which are known. Very little of it can be used without shipment. Having control over the railroads, it was but another step to control the shipment of the coal. In this manner it was possible to send coal where it was needed, and after the price was fixed the distribution on the basis of needs was not difficult. The real difficulty was in getting the coal mined and hauled.

The wool control was not put into effect until the spring of 1918, but it proved feasible. Wool cannot be used to any great extent locally without a milling process. It all comes to the market, and the government takes charge of the entire marketing machinery. The government thus gained control of the whole wool clip of the year. By so doing two things were accomplished: (1) the government could direct the manufacture of the wool for military purposes; (2) the price was set. It is not so clear how the government is going to dispose of wool which now it does not want.

It was the belief of the Food Administration that the exigencies of the case were such that goods must be sent to people who needed them rather than to those who were most ready to pay for them. This is a species of rationing. It would be extremely difficult to determine that a given amount of any commodity, based on previous sales, should be sent to each local market without first knowing that it would be in demand. Coupled with the effort to get goods to the points where they were most needed there has been another effort to consider the problem of the cost of transportation. Coal has been handled in zones, wheat in zones, and in one or two notable instances state councils of defense have put on campaigns to induce people to use home-grown products

of all kinds to save needless hauling. We have learned that free competition is not sparing of effort in meeting trade demands, and in some instances the methods are not in accordance with social economy, at least of economy of a very literal sort. The demand for the above-named articles is, however, so inelastic that there was no question as to willingness of the people to take them. There were not many Hotspurs to "cavil at the ninth part of a hair." The policy of complete control could not have been applied to a great many things. For instance, not to potatoes, over which there was much controversy; not to milk, on which we have such detailed history. It could be applied only to bare necessities, and only these did the Food Administration undertake to subject to such drastic measures. Until some painstaking research is made to disprove the thesis, it will be very generally believed that under the stress of war the socialization of the markets to this extent was a success.

Control Over Prices and Profits

The whole effort of the government during the past eighteen months, with respect to markets, has been to establish fair prices at a time when the forces of competition were disorganized and not in shape to give to society the benefits of their influence. But, despite this effort, competitive forces were in such a plight as to give great rewards to some at the expense of others, and at the same time to hinder the working of all forces in the prosecution of the war. However, the policy of the government with respect to price regulation and to other plans and processes of economic life was not constructive. On the other hand it made a Herculean effort to meet an emergency, which was more like the frantic struggles of sailors to stop a leak while at sea than the deliberate program of remodelling at leisure a damaged craft in dry dock.

Wars create an abnormal demand for certain goods. The World War was no exception. At the same time production was greatly reduced. That the prices of most necessities were destined to rise greatly was very generally recognized. The government planned at once to assume large authority in the matter. The Food Administration Act gave the President power especially to fix the prices of coal, coke, and wheat. At the same time he was empowered to fix the margins of middlemen on any commodities which might be termed necessaries. This latter power was granted apparently with a view to the control of prices of com-

modities after they left the producers' hands rather than to setting prices at which goods should be produced or sold. The feeling was strong against the boosting of prices along the way from the producer to the consumer. Special committees were promptly set at work to determine the prices of wheat and coal. Later special commissions worked at other price fixing, prominent among which were the milk commissions, and the committee on hog prices.

One of the most noticeable phases of the whole episode of price fixing was the almost naïve dependence on the cost-of-production theory of value on the part of those charged with the duty of naming the figures at which goods should sell. "How much did they cost?" was all but invariably the primary question asked. In the case of certain middleman margins in which the government has concerned itself the cost was as a rule ascertainable, and, moreover, fundamental. In the case of the production of coal, milk, wheat, and live stock, it was not ascertainable; and, were it for a given time to be known just what costs were incurred, for example, in the production of each quart of milk sold on the Chicago market, it is by no means clear what the price would, or should, be. It is reported that in the case of coal the attempt to give some of the small producers a living price resulted in allowing handsome profits to larger producers. This was true also of millers; the able business men in that work made more money than ever before. From the standpoint of a student of theories of value, nothing could have been staged that would have borne out the views of modern economists more acceptably than the abortive attempts to base prices on cost of production, such as have been made during the past eighteen months. At the same time it so happens that the prices which have best stood the test of trial in practice are those which, due to lack of time and facilities for making the necessary inquiries, were in no sense based on cost of production; as the price of wheat, which remains practically unchanged for three years, and the price of coal, which has been several times readjusted in order to bring out the required supply.

The control over profits has taken several forms. In the case of price-controlled commodities, the government has allowed certain prescribed percentages as a maximum profit, but, contrary to popular opinion, has not guaranteed them. The manufacturers of condensed milk were allowed to make a 10 per cent profit, but at times they actually suffered losses. So also with butter and cheese dealers. The big packers were limited to 9 per cent on meat handled.

Buying and selling within the trade was in many instances restricted to one such transaction, unless it could be shown that the purpose was moving the goods, not mere profit. The margins to be charged by wholesalers and retailers were suggested in some cases, prescribed in others. One of the main purposes of the Food Administration was to bring the whole influence and strength of the government to bear on prices in such a manner as to allow for expansion demanded by price inflation due to natural causes, and to prevent price increases which meant individual gain to some and corresponding loss to others. Speculation is the word which covers a large part of this field.

The buccaneers of trade were to be kept from speculating on the necessaries of life and war. To this end futures were forbidden in some instances, and limited in others. As Mr. Hoover stated it: "The purpose of the Food Administration is to regulate profits to a pre-war normal basis in order that no greater tax shall be placed upon the consumer by virtue of the high prices than bears a proper relation to producers' receipts." Speculating was discouraged in all instances, prevented in some. Hoarding, a kind of speculation, was prohibited, and where discovered was punished.

Among the best instances of price control are those respecting sugar, coal, and flour. In all reason, we should have been paying two, three, or four times as much for sugar during the past year and a half had it been left to the mercy of speculators and profiteers. Coal would have reached unheard-of prices, at least not heard of in America, had a free reign been given the trade. Wheat prices jumped to about $3.50 a bushel under the combined influence of excited foreign buyers and enthusiastic domestic speculators in May, 1917. The government price on wheat was $2.20 and proved adequate. Correspondingly, the price of flour fell from $17 a barrel to $11. That this was a beneficial act to the country at large cannot be doubted. That flour would have remained at the high point of 1917, or gone still higher, is the belief of many good judges.

The control over hog prices has not followed an even or satisfactory course, yet the farmers were induced to raise the hogs; the government has used its power to hold prices up, and to keep them steady; the price of pork has not gone out of reach.

We were just getting a real start in price making when the occasion for it seems to be disappearing.

Control Over the Processes of the Market

The control over the processes of the market have of necessity been indicated to some extent in the above discussion. In general it may be said that it was not the purpose of the government to reform the marketing methods. It was not a time to try many experiments such as were likely to call out widespread opposition. There was no "Eliminate the middleman" campaign. On the other hand, there were, more or less under public or semi-public influence, a great number of municipal markets established; a considerable number of coöperative delivery systems inaugurated; a widespread resort to the "cash and carry" method of selling goods; and, more incidentally than intentionally, a few middlemen left with no goods to handle, while in other cases the middlemen have increased in number.

The municipal markets which seem to be on a permanent basis, started during the war, are certainly few, though there are occasional instances of such. The limits of the municipal market appear to be rather closely circumscribed. At one time the producers do not find it worth while; at another time the consumers get tired of going for produce. In many parts of the country the operation of a municipal market is limited by the climate. Altogether it does not seem that such markets have made revolutionary gains under the war conditions, yet they have made some gains in favor.

Coöperative delivery systems are reported from many states, but not in great numbers. They are logical and economical, but the present crisis has failed to develop them generally.

The "cash and carry" plan of getting groceries and meat has, at least for the time, made remarkable headway. The "cash" portion of the plan has little against it, and much in favor. Not so much can be said for the "carry." It is a resort to a self-sufficing economy. While a housewife may pride herself on saving a dollar or two a week by going after household supplies, it is likely that the debit side of the account, in the nature of lost time, car fare, and weariness, more than offset the credit. The chain store seems to be gaining ground, and with that "cash and carry" becomes tolerable.

The middlemen are with us in about the usual numbers. Coal jobbers are much more numerous, due to the regulations under which it becomes profitable to take out a license. On the contrary, the wool brokers have had little or nothing to do, the gov-

ernment management being such as to make it possible to do business without them. But on the whole the middlemen are doing as much as ever of the work and for the most part they are, so far as is known, getting as good pay as ever. In some lines of work, probably in nearly all, the costs of doing business have risen and the charges have correspondingly increased. In the grain elevator business it was believed in the early months of regulation that the stability of prices would result in narrowing the margins of the local buyer. On the contrary, the local buyer has found the hazards fully as great as usual, and has widened his margins.

Under control of marketing processes, mention must be made of standardization and grading, work which was in progress before the present emergency. This is mainly in the hands of the Bureau of Markets, and it has been greatly expanded during the past few years. Regulations concerning perishables have been put into practice. For example, complaints are often made concerning the condition of goods consigned. The Bureau of Markets will look into the matter on request. Again there is complaint that food stuff is destroyed in order to raise the price of the remaining amount. Under the law at present this is a punishable offense.

That much education of a valuable nature has resulted from the market regulations of the past few months is beyond doubt. We have learned why, under present arrangements, it is necessary for the milk distributor to receive nearly as much of the retail price of milk as does the farmer. The facts have been brought to light. It is evident that competition cannot eliminate the enormous duplication and waste involved. The public has at least gone far enough to discuss the possibility of a more economical system. But curiously enough, or perhaps it would be better to say, naturally enough, after all the contention over milk prices, about the same percentage of the final price goes to each of the contending parties. It is not greatly unlike this in other lines. There has been a readjustment to a higher level. The governmental effort has resulted in greater stability than would otherwise have obtained during the transition, but the relation of buyer and seller is for the most part about what it was before. The great exceptions to this have been noted above.

Secondary Effects

The story of the effects of the government price control has not been told until it is noticed that many farmers' organizations

have been awakened as never before in a generation. Some of them have increased their memberships by 100 or 200 per cent. Others have taken on strength as well as members and have made themselves felt as producers. Furthermore, a large number of these organizations have federated and are determined to be heard when questions pertaining to farming are up for discussion. On the contrary, other organizations have been weakened. Where there has been substantially nothing left for the organization to do it has naturally become inactive. This is true of many grain-selling companies.

Outside of this movement is another which is by no means negligible. In several states the farmers are in politics as they seldom have been before. The movement was not started by government price and market control, but it was stimulated very much by it. The feeling is strong that farmers were not treated fairly by the governing bodies; for example, with respect to wheat prices, and to a lesser extent with respect to meat prices. While the remedy may not appear on the surface to fit the case, it is in the main a determination to gain a greater measure of control in the government in order that in the future an appreciation of the farmers' point of view will not be lacking on the part of those in charge of state affairs.

Perhaps the most fundamental statement that can be made is, after all, that the government has not been trying to reform marketing methods. Rather, it has been trying to control the prices of certain essential commodities. Out of the hastily made program of price control we may be able to get as by-products some results that should be made permanent. We know more about markets than ever before. We have them under social scrutiny, license, and control. We have not, as yet, reduced the charges of many middlemen, much less put the men out of business. We are testing the antitrust law and, let us hope, establishing surer footing for collective bargaining. We have arrived at a point at which it is expedient to take stock of paraphernalia and see what is useful and what is not in a rearranged program. We have had a shaking up, not a regeneration. What we have accomplished is unquestionably the avoidance of many things which if left to themselves would have been worse.

EFFECT OF GOVERNMENT CONTROL ON MARKETING METHODS AND COSTS—DISCUSSION

JAMES E. BOYLE.—1. Our attitude towards government control of marketing depends on our information concerning this control. The source of this information, therefore, becomes a question of fundamental and vital importance. We must be on our guard here. An illustration will make my meaning clear. A clever young newspaper man who had once flourished in Dallas, Texas, last winter wrote an article in praise of the Food Administration's control of the grain trade. This article, very effective and very inaccurate, was published in a popular Philadelphia weekly noted for articles of this type. There it came to the attention of the Food Administration. It was reprinted as a government bulletin and franked throughout the length and breadth of the land as part of the propaganda work of this bureau and doubtless came to the attention of many hundreds of thousands of readers. I was in personal contact with many things discussed in this article, and I know that many of its major statements were misrepresentative and misleading. The author of this article soon after its appearance joined the staff of the Food Administration.

This merely illustrates one phase of that propaganda work conducted the last year or two by our government. Students in the realm of agricultural economics who have long used the *Weekly News Letter* of the Department of Agriculture recall how this paper was once a four-page sheet of useful information but has lately grown into a twelve- or sixteen-page organ, playing one tune with variations, namely, what the Department of Agriculture "has done for the farmer." Other branches of the government are competing in similar publicity campaigns about their own virtues. It is superfluous to mention the name of Creel in this connection, except to give the crowning illustration of the melancholy fact that propaganda work by the government—like its wholesale bribery of labor—has now reached tremendous and overwhelming proportions.

And here, by the way, is one danger of government control; the government will not tell the people the truth about the mistakes made in connection with this control, and private critics are likely to be punished in some of those subtle ways at the command of the government. One suggestion is here pertinent, namely, that if we are to have government control of marketing, then we need some form of "independent audit" of this control, such as a private corporation has when it is examined for its stockholders by a certified public ac-

countant. However, the point I wish to make is that if our ideas of government control are based to any extent on government propaganda, then these ideas are subject to heavy discount.

2. The complexity of government control this last year is the condition that confronts us when we start to study this question for ourselves. I will speak only of the grain trade in this five-minute discussion, for it is the only phase of government control which I was able to study first-hand, continuously, for a period of several months. Think of the complexity of this one problem. There was involved, first, the Coal Administration with its coal shortage and its coalless Mondays. These affected the terminal grain elevators, the hospital elevators, the grain-drying plants, the industrial alcohol plants, and other branches of the grain trade. Second, there was the Railroad Administration with its car shortage; its recurring embargoes on grains and on grain markets; and the impossibility of moving grain at times from country to terminals. In the third place, there were the unusual severe winter storms in the grain belt, affecting both the Coal Administration and the Railroad Administration. And again, there was the corn crop with several hundreds of millions of bushels of wet corn rapidly spoiling on the hands of the farmer or country shipper because it could not be moved fast enough to the terminals where the drying machinery was located. Then there was the cash market for corn far above the futures, making hedging no protection; there was oats in sympathy with corn, with cash above futures; there was barley reaching the high price of three cents a pound, or the same price as ordinary wheat was sellfor; there was whole wheat going abroad instead of flour, leaving the dairy industry without one basic feed (one cause of the present high price of milk).

These complex market conditions, I say, make it difficult to learn precisely what are the effects of government control on methods and costs of marketing. In the brief time at my disposal I can do no more than state baldly my own *conclusions* without citing the evidence.

3. No revolutionary changes were made in the *methods* of marketing grain. A grain buyer was added to those already existing on each big market. This buyer bought cash grain and also received consignments. He did not, however, perform the usual services of a commission merchant. He did not cash drafts in advance of arrival of cars. He did not call for reinspections. He did not look after claims. He did not furnish cleaning or mixing of off-grade or low-grade grain. He merely took the grain at government grades and dockage.

As far as *costs* are concerned, he charged the same commission on

consigned grain as regular commission merchants. Since he performed less service for the consignor at the same price, it was tantamount to an increase in cost. The regular dealer called for reinspection when his client's interests warranted it; he cashed drafts and made prompt returns to the country; he took in hand the car shortage problem, getting back into use many old discarded second-hand cars, he looked after the cleaning or mixing of grain when necessary, or sold the lowest grades to grain salvage houses.

The history has not yet been written of the confusion wrought in the big grain markets, such as Chicago, by the overlapping jurisdictions of the various government boards and by their conflicting orders, rules, and regulations. I am satisfied, by what I saw myself in Chicago, that this confusion, coupled with the earlier named factors of bad weather, car shortage, and coal shortage, caused a loss running into hundreds of millions of dollars in the case of corn alone. A very large part of this loss was avoidable. The history has not yet been written of the voluntary regulations of the cash and futures markets in the interest of the public by the Directors of the Chicago Board of Trade and other grain exchanges, under the pressure of war emergency, and at financial sacrifices to themselves. Neither has the history been written of the evolutionary growth of these great grain markets, in the years before the war, showing how their directors (or their members themselves through the initiative and referendum system of self-government in vogue) had adopted appropriate rules to keep these exchanges open and competitive markets so that the grain could be marketed at any and all times, even war times, on a very low margin of cost.

My own conviction is that had there been much less government control of the grain trade, the farmer would have had more for his grain, the public interests would have been served much better, and at much less cost.

Guy C. Smith.—The present seems quite too early to measure accurately the effects of the government's efforts to control the marketing of certain products. It further appears that the aim of those in charge of this work was not so much to eliminate evils, real or imaginary, which existed in prewar times as to prevent certain undesirable conditions which might arise as a result of the war. On the whole, the effect of government control on marketing is well summarized in Professor Hibbard's statement that "We have had a shaking-up, not a regeneration." This is well illustrated in the marketing of liquid milk. The proper distribution of the consumer's dollar between pro-

ducers and distributors of milk had become a matter of more or less bitter discussion before the war began. Consumers and producers constituting the large majority of the interested persons in this discussion, the distributors were the objective for frequent and severe indictments of extortion in their charges for service. The margin of 4 or 5 cents per quart which they maintained was absolutely necessary to obtain a small margin of profit has now been increased, with the approval of at least a part of the Regional Milk Boards, in about the same proportion as has the price allowed the producers. No net result is discernible in this phase of the business. There has been a noticeable effect in certain other phases of the business, notably the attempt of the producers, through organization, to exercise a growing influence in favor of their interests. This has not been confined to organizations for collective bargaining, but in a few scattered instances to the taking over of the actual business of distributing their product. These attempts have hardly established themselves on a permanent basis. Three such plants located in as many New England states are still in a condition of uncertainty as to their ultimate success. Only one of them has made any successful effort to reduce the cost of distribution, and in this case the entire reduction has been added to the price paid the producer, the price charged the consumer being made to conform to that of nearby cities. The status of all milk producers' organizations two or three years from now is even more problematical because of the readjustments which seem likely to take place when the increased demand for the dairy products of this country, due to the war, has subsided to a new normal.

What appears to be one of the most permanent results of government influence on marketing is the emphasis which has been laid upon the standardization of farm products. One illustration will suffice. The indorsement by the Federal Food Administration of potato grades recommended by the United States Bureau of Markets has given a noticeable impetus to the practice of grading. Already some states have taken steps to put these grades into effect on what is likely to become a permanent basis. Both state and federal legislation on the grading of farm products seems likely to result in the near future.

The movement among dairy farmers to organize their interests has been duplicated among other classes of producers. Never has there been such a decided movement in this direction. In one state, forty farmers' organizations for buying and selling were organized in the year ending June 30, 1918. Many other states followed closely in the

movement. This cannot be said to be due entirely to government control, but it is difficult to separate the forces which have brought about so many organizations. Again the net result in this direction cannot be now determined. Rising prices have been favorable to these organizations, both in buying and selling. It remains to be seen how the after-the-war readjustment of prices will affect these groups and the formation of others.

The influence of government regulations on transportation as a factor of marketing should not be overlooked. The increase in the size of minimum carloads may not be a thing of permanence, but it is likely to persist in some measure. More particularly, the propaganda to bring about more extensive and more regular use of the motor truck will probably have more or less far-reaching results.

In conclusion, the greatest effect of government control on marketing has apparently been not so much to bring about new methods as to act as a great educational campaign to acquaint all parties concerned with the steps and processes of distribution, and to bring about a more extensive use of sound practices already established.

PROVISIONS OF THE FOOD ACT AND ACTIVITIES WHICH SHOULD BE MADE PERMANENT

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The law establishing the Food Administration provides specifically for but a small number of activities which have actually been undertaken by the Food Administration. This is true not only because of the general powers conferred by the act itself, but because, as is always the case in times of war, no one can foresee the exigencies which would arise demanding unusual action. Probably no one is more surprised than the sponsors of the act itself with the unexpected lines of activity which have been assumed. It is also probably true that the most constructive and permanent benefits have resulted from these unforeseen activities.

If a general survey and analysis of the Food Administration's activities is made, it will be found that the work may be classified under the two following heads:

1. Those activities concerning themselves with the distribution of food commodities; that is, marketing regulations and conditions.

2. Those activities having to do with the regulation of price.

Market regulations have concerned themselves specifically with such commodities as sugar, wheat, and with the conditions governing the marketing of perishable and non-perishable commodities. In the case of both sugar and wheat there has been a general supervision of the distribution of these commodities through agreements with the existing agencies of distribution.

It is important to understand that in regulating the distribution of these essential products, as well as in practically all other phases of the Food Administration work, there has been no disposition to replace the regular business organizations by a government organization, but on the contrary to utilize the existing machinery of distribution. While the work of the Food Administration has produced profound changes in marketing, these results are by-products of the activities, since it was not the function of the Food Administration to reorganize business conduct.

In the case of sugar and wheat and other cereals one of the chief purposes has been to distribute the product equitably to different sections of the country, and at the same time to secure certain amounts of these products for export. Zones were estab-

lished, and the movement of sugar and cereals have been restricted, thus securing large economies in transportation costs. Transportation waste has long been present in much of our marketing, made possible not only by the unregulated competition of the carriers but also by the competition of markets. Through this control of the movements of these necessities, each section has, so far as transportation conditions permitted, been assured an equitable share in the available supply. Nothing short of such control would have prevented many sections of the country from being without sugar and certain cereals for considerable periods during parts of the winter of 1917 and the spring of 1918. Not only has the available supply been equitably distributed, but the sugar supplies from Hawaii, Cuba, and Porto Rico have been controlled in their movements. The available stocks have at all times been known, and hence a deficient market has, wherever possible, been supplied.

In the case of perishable commodities the method of marketing them has been almost revolutionized. Each distributor of any importance of these commodities has been licensed, and as such has been subject to the rules and regulations promulgated to govern the marketing of perishable produce.

For many years the waste in handling perishable produce has been appalling, and under the most carefully supervised system large wastes in marketing perishable produce are inevitable. Prices on this produce fluctuate very widely and quickly, and for many years any fall in price in the market has led either to refusal on the part of the buyer to accept the goods at any price, or to a demand for a large allowance from the contract price. In either case the perishable produce deteriorated very rapidly, and great loss resulted not only for the consignor but also for the public at large.

The regulations of the Food Administration prohibit, on penalty of revocation of license, a consignee from not accepting produce which is of a grade purchased, and likewise prevent the consignor from shipping produce of a grade not purchased. Through an inspection system quick action was secured in determining the rights in the case, and thus perishable produce was kept moving rapidly to the consumer. What was in law an illegal practice, but seldom prevented, has become an actual accomplishment through these regulations. Consignor, consignee, and the public ought not to permit the old practice to become again prevalent.

In the case of non-perishable food commodities, the chief accomplishments have been in regulating the stock which could be held for the market. Certain other regulations have secured as direct as possible a movement to consumers, and others have fixed margins of profit for the various dealers in handling these commodities. Certain regulations governing resales within the trade have tended to the elimination of unnecessary pyramiding of profits.

The second general class of activities of the Food Administration concerns itself with regulation of price. As has been stated, the Food Act grants no direct power to fix prices, but it does confer the power to prohibit profiteering. It also grants the power to issue and revoke licenses. It is, therefore, in the administration of these foregoing powers and in the extensive plan of agreements with trade groups that the control of prices has been established.

No one except those intimately familiar with the work of the Food Administration can realize how extensive the control of prices has been, and it should be clearly understood that this control has been in most cases gladly entered into by the trade groups. Indeed, they have been in many cases most anxious to subscribe to the plan of fixing margins or even of prices.

This is largely true because of the character of the food-distributing business. It is a highly competitive one and, in many respects, a highly speculative one. If, therefore, a disinterested and superior body proposed an agreement which would stabilize prices, and if individual competitors would agree to the plan, the arrangement has usually been very satisfactory to the trade.

Nor has it meant necessarily that the consumer has been injured. Sugar, for instance, before the Food Administration was established was frequently sold at or below cost. Under the Food Administration the retailer was granted a stable profit, and at the same time the consumer was guaranteed sugar at a fair price, when undoubtedly it would at certain times and in many places have been true that the price would have been much higher.

A stabilized price is a kind of insurance, reducing risk both for the producers and consumers. The fixing of the liberal price—a marginal producer's price—in war times gives a feeling of security and assurance to producers that is distinctly advantageous. They have only to think of the element of cost; that is, how to organize and carry on production so as to bring it as far as possible below this fixed price.

Likewise, from the viewpoint of the consumer there is this kind of assurance during war times, when uncertainty is greatest both for consumers and producers. The fixation of the price discounts speculation by consumers, who are the most inefficient of all risk-takers.

Furthermore, there is the psychological consideration that consumers will tolerate fixed prices and an empty market in war times, whereas they would rebel against unregulated high prices. In short, price-fixing on the basis of marginal cost reduces risk both to producer and consumer in war times, and prevents unintelligent speculation on the part of each class.

Agreements with the trades have been very numerous. They have been made with producers, manufacturers, wholesalers and retailers. In an effort to enforce that provision of the act prohibiting profiteering, it was necessary to establish some standard of what constituted profiteering. Therefore, margins of profit were agreed upon by consulting the different trade groups. A system of margins was fixed for both the wholesaler and retailer on many of the licensed food commodities.

The preceding activities of the Food Administration are the most important and constructive, although they are the ones about which the public at large have known the least, inasmuch as there is little of a spectacular character in their administration and hence they have supplied little material of a news value; and the public at large has secured its chief information of food activities very naturally from the newspapers.

The consumptive regulations with respect to sugar, bread, and public eating-places have created much interest on the part of the trades and the public. These have had a large emotional appeal on the basis of patriotism, hate, and fear. It is true that large results have, because of these emotional appeals, been secured in the conservation of food commodities in the homes; but such activities are suitable only to the conditions of war, and their success is predicated upon appeals which would have little force in times of peace. Let us revert, therefore, to the above classification of the major activities of the Food Administration and discuss what ones, if any, can profitably be made permanent.

In the first place, it should be stated that the Food Administration in conjunction with the Department of Agriculture has done much to stimulate the production of various food commodities. Stimulating production is provided for, in a general way

at least, by the machinery already existing in the Department of Agriculture. To the extent that production has been stimulated by the price regulations of the Food Administration, this motive may well be considered as ending with the legal existence of the Food Administration.

The method of stimulating production through price regulation has been by various agreements entered into between the Administration and different classes of the trade. Through these various agreements with producers or distributors with respect to margins and therefore of prices, there has been accomplished the end set; namely, an increase in production in many cases of food commodities. The price or margin agreed upon has, in most cases, been a liberal one, and the very natural and indicated result of stimulating production has resulted.

Under this arrangement with marginal trader as frequently the basis on which to establish a margin or price, there has undoubtedly resulted large profits to the more efficient; but, since increased production and stabilized price were the results desired, the larger profits to the more efficient could not be prevented. If a war taxation system had been devised, this unfortunate by-product of the plan could have been corrected. This only illustrates one of the many ways in which a war taxation system has not been devised to meet the conditions resulting from the necessary increased government regulations of business.

Whatever degree of success has been secured by these price regulations and the agreements as to margin between business and the government, has been largely due to the unusual conditions of war and the motives which have actuated both parties. Public opinion has been a large factor in enforcing these agreements. This public opinion has been largely determined by the unusual force which influences business conduct both on the part of producers and consumers during a state of war. These motives are largely absent in times of peace, and, therefore, detailed agreements between the government and business groups with respect to prices and margins would find little place during conditions of peace.

One point, however, in connection with the subject of margins and price regulations should be pointed out, which is often not recognized by students of economic phenomena. Under a highly competitive business organization, such as now prevails, there is enormous loss in the distribution of food commodities due to price-

cutting. If, therefore, in this highly competitive distributive food business, agreements can be made which tend to stabilize over short periods of time prices, the trade as such is not on purely business grounds so much opposed as might at first thought be supposed.

In many of the retail food trades there are distributors who know so little about their costs of doing business that they continually cut prices and do business at a loss. They receive scarcely good wages—to say nothing of true profits in conducting the business. They are continually competing with the more efficient because of their ignorance of the business. Therefore, a trade group is often not unwilling to have a stabilized price or margin, because in the end more true net profits may result even to the efficient business man.

Notwithstanding that in the distribution especially of food commodities large profits may be secured through future trading or through unpredictable phenomena associated with the business, yet over a longer period these larger profits are balanced by heavy losses. Therefore, agreements tending toward stabilization of price over short periods are not unwillingly entered into by the trade. If assurance is given that a disinterested party will see to it that all members of the trade observe the price or margin, and if this price or margin is at least a favorable one for the less efficient, stable and permanent profits are guaranteed for a large number.

If, therefore, an effort is made to enumerate those activities of the Food Administration which might be made permanent either as specific regulations or as principles to be held in mind in devising a future system of regulating the food-distributing business, the following program is suggested:

1. There should be little doubt about the desirability of making permanent the changes which have been made in the methods of marketing perishable produce. This work could be carried on by extending the activities of the Bureau of Markets of the Department of Agriculture, together with the coöperation of the Interstate Commerce Commission and the Department of Commerce.

To accomplish this result there would need to be—

a) A great extension of the grading and standardization laws, as well as a revision of some of these laws now in effect, in order that fruits, vegetables, poultry, eggs, cheese and other commodities may be properly graded. This one reform would enormously

reduce the risk associated with dealing in these products, and at the same time facilitate their marketing.

b) The force of inspectors of perishable and semi-perishable produce of the Bureau of Markets should be greatly increased so that at every important center of production during the marketing season the most careful grading and loading of these commodities could be assured. Likewise these should be permanently located in all the important markets of consumption or forwarding. These inspectors would inspect produce and certify as to its grade and condition when it was received or transferred.

c) A penalty should be provided for any consignor who does not grade or load produce as ordered, and for a consignee who rejects such produce, if it corresponds to the grade purchased. Probably all important dealers in such produce should be licensed.

d) The demurrage regulations should be more stringent in order to put a stop to the pernicious practice of using railway equipment as storage-houses.

e) The Market News Service of the Department of Agriculture should be greatly extended in order that producers may know the supplies in or rolling to each large market at any time, thus securing a good distribution of this perishable or semi-perishable produce which must at all times be kept moving rapidly to consumers.

These three reforms—that of extending the inspection service, that of devising more stringent demurrage regulations, and that of extending the Market News Service—would save millions of dollars to producers and consumers of perishable food commodities in the United States.

In the past there have been large economic losses of transportation costs by sending many cars out from the point of production to be diverted in transit. Many cars have been loaded improperly so that they reached the point of destination with a large percentage of the food ruined. But the largest loss has undoubtedly come from the consignee refusing to accept such products when they reached the market, because either the grade was not as ordered or, more frequently, because the price in the receiving market had decreased.

Prices on perishable commodities do and must fluctuate very widely over short periods of time, but the reforms of the Food Administration in handling perishable produce have been welcomed both by consignors and consignees, and undoubtedly the benefit

to the public has been very large. It is beside the point to argue that contracts for the purchase of perishable produce are enforced like all other contracts in the courts. Because of the highly perishable character of this produce, any dispute arising between buyer and seller cannot await the slow procedure of court action. In the past the commodity when refused has remained in the car for a number of days, holding out or using valuable railway equipment; and in the end has been turned over to the railway company and sold for freight with the result that frequently neither the transportation company nor the producer himself has realized but a fraction of the original value of the commodity.

2. Much popular complaint has been heard during the past decade against the large number of middlemen in the food distributing. Doubtless the more important classes of these middlemen render a specialized economic function that is valuable both for consumers and producers. However, certain Food Administration regulations have placed a limit upon the number of resales permitted with a view of preventing the pyramiding of profits, and consequently the enhancing of prices to consumers. It might be possible, through a system of licensee regulations established by law and entrusted to the Federal Trade Commission, to effect some permanent, desirable reforms in controlling unnecessary resales.

3. The food conditions during the war have brought out even more prominently the increasing importance of the cold-storage house. Most states have certain general regulations with respect to cold-storage-house transactions. These regulations ought to be largely extended both by the state and the federal government, the latter necessarily restricting itself to regulations governing products of an interstate character. As in so many other particulars, there is need of greater uniformity in state laws governing the operation of cold-storage houses, but there is little doubt, on the basis of our recent experience, that increased regulations should be made for these important factors in the distribution and cost of food commodities.

4. Another respect in which the Food Administration's activities have redounded to great public benefit has been in connection with the milk industry. Here again there has been no power to regulate prices, but through agreements with producers and distributors in various sections, certain beneficial results have been secured for the public. Milk has become, under modern living

conditions in cities, such an important commodity not only for the general public but also for child welfare that it may well be questioned whether this commodity has not arisen to such importance as a necessity that both state and federal governments should take the whole matter under closer regulations. In this connection it is not only important that pure milk be served to the consuming public, but that such supervision should be made, especially of the distributing agencies, that the public is guaranteed a fair price.

5. Not the least lesson which has been brought home to all those having to do with the production and distribution of food commodities, is the great need in this country of a new Fair Trade Act and greater activity on the part of those who have the administration of the act under their control.

There is disagreement among students of the question as to whether a fixed-price law should be enacted, but the evil against which such a law is directed ought to be recognized, so that under the increased powers of the Federal Trade Commission more adequate principles of equity and fair play could be secured in the distribution business in this country. We have worshipped so long the idol of competition and the gains which we fondly imagine are always inherent in such a system that little attention has been paid to the unnecessary losses inherent in this highly competitive system as it has developed. A marked illustration has been seen in the railway business, but results approximating this are to be found in almost all lines of business. Business pirates are not synonymous with public servants even in the competitive regime of the present.

American business, as indeed business of all modern industrial nations, needs most an analysis of business costs so that some readily accessible information can be secured by the business man, that he is or is not making a success of his business. Ignorance of costs of doing business is the bane of American business. It injects into the competitive system an element of danger both for the business and for the public. It leads to abnormally high profits and periods of no profit. A condition approximating stable prices and profits might well redound to the interests of both consumers and producers.

6. A more careful supervision of the produce exchanges of the country should be provided, and greater publicity given to their operations.

As is frequently the case, the most important and the most promising beneficial results frequently are the least tangible. This is especially true in connection with the activities of the Food Administration, as it has been made manifest through coöperative agreements with various producing and trade groups. From an earlier period when the policy of "Let business alone" was prevalent, to a later period when the dictum seemed to be that "All business is unfair to the public" and therefore needs restrictive regulations and supervision of every character, we have arrived at a period when it has become realized that much can be secured through coöperation between the government and business.

This has been clearly demonstrated in the activities of the Food Administration, and while it is one of those intangible results which do not point to a specific method of action, yet it nevertheless ought to make possible a new relationship between the government and business. Many agreements have been made between the Food Administration and trade groups which, preceding the war, under statutory acts, would have without doubt brought the trade into the courts convicted with the evidence already in hand of being a combination in restraint of trade. The lesson ought to be clearly learned that encouragement and supervision of trade group activities should replace the older system of forbidding trade groups to associate to improve conditions and methods of doing business, and at the same time secure results which might be of great public benefit.

Whether we wish it or not, modern business has become so complex, and directly and indirectly affects the public in so many ways, that the government can no longer follow the policy of "hands off." Without attempting in any respect to set up a governmental machinery which shall take the responsibility of saying to consumers what is or what is not a fair price, there is every reason for the government to revise its attitude towards business groups and permit them to associate and engage in certain activities, their action at all times to be subject to government supervision if in such action the public good is endangered.

If, therefore, we attempt to summarize those activities of the Food Administration which should be permanent, they are not so much specific in detail as they are pointing the way to a new day and a new order of the relations of government to business.

PROVISIONS OF THE FOOD ACT AND ACTIVITIES WHICH SHOULD BE MADE PERMANENT—DISCUSSION

Ray B. Westerfield.—I am much impressed with the moderate nature of Professor Gephart's proposals. His proposals are far from radical; in fact, the trade would largely regard them as minor details of reform. He does not advocate the retention of the Food Administration as such, but would have certain of his proposed measures exercised by the Interstate Commerce Commission, the Federal Trade Commission, the Bureau of Markets, and the Department of Agriculture. He does not favor retaining the Grain Corporation, nor the zoning system, and his proposals for price fixing lack emphasis and definiteness. He seems thoroughly alive to the fact that conditions of distribution are *in time of war so* very abnormal as not to constitute a sound basis of argument for continuing *in time of peace* such institutions and methods as may have proven useful or indispensable during war. However, there is no denying that the Food and Fuel Administrations have been most interesting and important experiments in economics, have indicated many defects of our distributing system, and have engaged in many remedial activities.

One of the dominating principles governing their activities has been to make maximum use of the existing machinery of distribution, in so far as it could facilitate the ends in view. They did not attempt to create a new system of distribution, but sought rather to correct certain evident defects or abuses in the old system; they befriended the trade and sought its coöperation, but worked as constructive critic and reformer. The reforms of the Food Administration which Professor Gephart would continue were largely the extension, in degree or scope, of improved marketing ideas (1) which had been tried and were being used by some advanced distributors (e.g., standardization and inspection), or (2) which distributors aspired to use but were forbidden by anti-trust or other legislation (e.g., price-fixing agreements), or (3) for which the federal government and certain states had legislated and inforced their laws, with varying degrees of thoroughness (e.g., cold storage, unfair competition, and speculative exchanges).

I agree quite fully with Professor Gephart in his indictment of the system of marketing perishable produce, but I am not so sympathetic with his proposals for uninvited government interference as the vehicle of reform. Grading and standardization are obviously the fundamentals of marketing reform; they are so recognized by the trade, and during recent years the trade associations and speculative ex-

changes have gradually extended the grading and standardizing of produce and sought uniformity. Certain producers, also, mainly through coöperative marketing associations, have established well-recognized grades and standards for their products. Certain states have passed laws standardizing barrels, crates, etc. Professor Gephart's proposal to extend the standardization of both container and contents and make them uniform for both intrastate and interstate commerce is therefore in line with present tendencies. The real question at hand is whether federal legislation should be adopted to hasten the process or whether it should be left to the slow but sure and natural development as worked out by the trade itself. I am of the opinion that the trade should develop it, or at least that the initiative and demand for reform should spring from the trade.

The same may be said about the proposal to have the produce inspected at the consignor's and at the consignee's, with penalties for rejecting produce that conforms to contract or for shipping produce that does not conform to contract. The large shipping associations have perfected a system of stringent inspection at point of shipment and have representatives at the markets to see whether or not the produce on arrival is off-quality and to inforce the keeping of contracts by boycott or judicial action. It is, I believe, generally recognized, by the unorganized as well as the organized, that the most fit and expedient way for producers, at least the small ones, to market is through coöperative organizations; as fast as this ideal is attained, does the proposed two-end compulsory system of government inspection become unnecessary.

The proposed two-end system of government inspection would undoubtedly teach produce dealers the sacred quality of contracts, in a way unfelt before. But here, I believe, The Food Administration is "straining at a gnat": the violated contracts constitute an extremely small fraction of the total produce sales; a high per cent of the trade is strictly honorable and abides strictly by their contractual obligations; a high per cent of the produce moves from shipper through consignee without hitch or dispute. It is unfortunate that the small remaining per cent is given undue publicity and importance. Besides, the evils of the "rejects" system are being corrected by the organization of the shippers, by the associations within the produce trade, by the editorial efforts of certain produce trade and by competition within the trade.

Many objections to the proposed system may be foreseen: (1) Some lines of produce practically defy standardization, and could be handled

only on a commission basis; also not all producers would have large enough supplies to grade, and these would go through on commission basis; the system, in other words, could not be made universal. (2) The inspection at the consignor's point might be "easy" and at the consignee's point "rigid." This would lead to disputes and the consignor claim he was systematically robbed; local pressure at the two points would tend to result in just such easy and rigid inspection; the grades would have to be drawn with great exactness and the inspections at the two points closely correlated; besides, the produce might shrink or vary in transit; the consignee, fearing the inspection would work to his disadvantage, might resort to the commission method instead—and this is an undesirable reversion of present tendencies, by which the jobbing method is supplanting the commission method in most markets. (3) It may prove impossible or inadvisable to establish uniform grades; there are local variations and annual variations; and it would be impossible for inspectors to be versed in all; in the case of the present coöperative associations it is different, for the market representative knows well the produce he is to inspect. (4) The provision of inspectors at all points of production would be obviously impossible; any approach to it would be very expensive; but it is usually the small and scattered shippers who are at the greatest disadvantage and need most the defense of the proposed inspection.

The proposal that the "demurrage regulations should be more stringent in order to put a stop to the pernicious practice of using railway equipment as storagehouses," should be qualified. The proposal probably means the fixing by law of higher horizontal demurrage rates, which would prove prohibitive to the use of cars, freight warehouses, or docks for storage purposes, or else the enactment of some shorter maximum period for unloading. The question here is largely, who should provide the capital to handle the occasional seasonable excessive supplies of produce at the market—the railroads, or the trade. If the trade builds storage facilities for the maximum supply, during most of the year they will in part stand idle; on the other hand, if the railroad builds cars sufficient to handle the maximum supply, during most of the year some of them must stand idle. It seems to me the demurrage plan should be elastic. The necessity for driving cars to their maximum utilization is occasional; the Food Administration contended with such occasion last winter. But during the larger part of the year this necessity does not exist, and the efficiency of the trade may be promoted by an elastic demurrage plan whereby cars when not needed greatly by the roads may be utilized for storage by the

trade. The railroads, by pooling their cars and renting cars from other companies, can give some elasticity; but the possibility of imposing high demurrage limitations should be conferred upon the railroads and terminal authorities, in case there should arise a great dearth of cars or a serious congestion of terminals. This local and seasonable adaptation is more logical than horizontal, universal, decidedly severe regulations.

Professor Gephart believes that "it might be possible, through a system of license regulations established by law and entrusted to the Federal Trade Commission, to effect some permanent, desirable reforms in controlling unnecessary resales," "with a view of preventing the pyramiding of profits and consequently the enhancing of prices to consumers." This proposal rests on what seems to me a premise unwarranted by facts. A priori, pyramiding of profits cannot permanently exist in a trade which is highly competitive, as is the produce business. Certain experts of the trade whom I have consulted tell me that although occasional instances of pyramiding exist, they are from necessity but temporary. Under the Food Administration it was necessary to limit the number of resales, for it fixed maximum margins for successive handlers and fixed the price to the consumer equal to the sum of original cost plus these margins; in other words, it provided for exact pyramiding of profits if the market was strong enough to support the price. Hence, the Food Administration divided the trade into three or four classes and forbade resales within each class, with certain exceptions: resales between dealers of the same class but living in different cities were less restricted, and one or two bona fide resales between dealers of the same class were allowed where it was reasonably necessary. In actual practice produce is seldom resold more than two times within the same class at any time, and the restriction was largely nominal in effect. But to the degree it did interfere, it had little warrant for existence and was detrimental. It is wide of the fact to suppose that producers scattered over the country know at the time they consign their produce to a market that that market and consignee are in the most direct line to the ultimate consumer, or to suppose that the wholesale receiver or jobber has such knowledge of his customers' wants as to buy just enough, no more, no less, and just the quality, to satisfy them. Resales within the trade are altogether logical and economical, and, as I see it, the proper parties to decide this matter are the dealers who buy from those shippers and sell to those customers and who live by serving both well, rather than some outside organized interference that is trying to

shove the trade into a strait-jacket. I am opposed to any limitation by law or regulation on the number of resales, for I do not believe pyramiding of profits exists, nor do I believe that the more direct movement of produce from producer to consumer is necessarily the more economical.

H. R. Tosdal.—I am in essential agreement with Professor Gephart's paper, especially with regard to the necessity for securing adequate grading and inspection facilities, but his fifth conclusion, relative to the need of a new Fair Trade act, is of particular interest.

We are constantly experiencing the difficulty of defining what does and what does not constitute fair trade; and, in this connection, one of the most perplexing problems is that concerning price cutting. There has been much agitation with respect to price cutting upon identified goods, but price cutting is also important with unidentified goods (unbranded goods) which are not affected by acts which have been presented to Congress. Of course, perishable products, semi-manufactured articles, fully-manufactured articles, or combinations of commodities sold under competitive contract—such as in the building trades—are affected by a species of price cutting which results in instability of the market, losses of contractors, temptation to deterioration of quality, and eventually in a larger spread between producer's price and consumer's price.

The remedy for such price cutting in unbranded goods as is undesirable is not price maintenance. The policy of price maintenance may be applied only to identified goods and is generally unsound even when so applied. The remedy lies in a definition by law of malicious price cutting and an extension of market knowledge among producers, middlemen, and consumers. Much harmful price cutting is not malicious—merely ignorant—and the extension of market knowledge advocated by Professor Gephart is certainly in line with sound progress.

For products which are sold in great volume throughout the country it may be feasible to have government systems of inspection and grading, of collecting and disseminating market information. Obviously such a plan is not workable in most lines of manufactured goods, because it would require an unwieldy organization.

It is here that coöperation among competitors can be practical and effective. Professor Gephart has mentioned the willingness of groups of dealers and producers to coöperate with the Food Administration. It seems to me that one of the permanent intangible influences of the war will be the development of greater coöperation among business men along practical lines, and undoubtedly the work of the Food Adminis-

tration in the accepted channels of trade will have permanent results in this direction. With adequate definition of fair and unfair trade practice, with an increase of market knowledge so that facts instead of rumors govern transactions, and with coöperation where coöperation is beneficial, greater stability of markets will be secured and smaller margins will be necessary in order to give fair compensation to the factors involved.

E. G. Nourse.—While I find myself in hearty agreement with many of the things which are contained in Professor Westerfield's paper, I must confess that the question of "rejections" and the work of the Food Administration in that connection appear to me in quite a different light from that in which he views it. It may be true, as he suggests, that in actual amount not over one per cent of the total volume of trade is involved in this question. It would be my own feeling that that guess is somewhat too low, but, even conceding that one per cent is the true figure, the matter still is one which is important out of all proportion to its absolute amount. In several years of study of the marketing of perishables I have found this to be one of the most serious abuses, one which the members of the trade themselves have recognized as a serious demoralizing factor in their business, and from which they have in recent years been striving to free themselves through the action of various trade associations, the organization of local market sentiment, and the like. However, they were unable to do this unaided, but when the Food Administration took hold of the problem substantial progress was made toward its solution. In many quarters, members of the trade are quite frank to confess that they had tried in vain to effect this needed reform from within, and were glad when a strong outside agency introduced the element of authority necessary to get control of, and in large measure to eliminate, the bad practice. It may be that this ground once won will be held without further aid from outside the private market organization, although personally I feel that it is rather unfortunate that the regulations of the Food Administration in this direction are being relaxed so soon. At all events, we should give the Food Administration credit for having seen promptly and taken hold courageously of one of the most serious problems of the perishable food trade, and for having set in motion just and effective measures toward remedying the condition.

Furthermore, I do not feel so great a confidence as does Professor Westerfield in the power of coöperative organization to cover fully the demand for market inspection and to remove the need for governmental

agencies in the performing of this function. Great as is the work done by coöperative associations of growers toward the standardization of their products, and in spite of their probable expansion in the future, there is still and will continue to be a large field for government inspection. Even in the case of those goods which are shipped by growers' coöperative organizations (and a large proportion are not), I am by no means certain that we shall see universally such large-scale federation of local growers' associations as would make terminal market inspection by their own agents feasible. And, even where such large organizations are possible, there will still be disputes which need to be referred to some inpartial and expert agency which has no commercial connection with either shipper or receiver.

All this involves questions too large to go into here. But it is my opinion that, in adjudicating rejection disputes on the basis of official terminal inspection, the Food Administration has helpfully extended a line of work already well begun by the federal Bureau of Markets. It seems to me pretty certain that we shall need permanently in our market organization a government inspection service, available on request of either shipper or receiver. This is a logical complement of the government regulation of weights, measures, grades, and containers; and these together include a field of activity which cannot safely be left to private agencies of control any more than can the regulation of money and banking.

L. C. Gray.—I am in entire agreement with Professor Gephart's conclusions that the Food Administration has developed a number of policies which should be incorporated permanently in our system of marketing. However, I do not believe that the system of forbidding resales within the trade is one of the policies that should be continued. As I understand this policy, it was developed as a necessary supplement to the policy of regulating dealers' margins. If margins are definitely fixed, it is obviously necessary to prevent the evasion of the regulation by making resales among the same grade of middlemen. That the policy was essentially supplementary in nature is indicated by the number of exceptions which the Administration found it necessary to make. In fact, the Food Administration recognizes five cases in which resales will be allowed. The nature of these cases indicates the impracticability of imposing the policy of prohibiting resales except as a policy supplementary to the regulation in margins. It is my belief that competition will prevent resales from becoming regularly an additional charge on the industry except where resale involves a

regular marketing function that it is impossible for competition to eliminate.

Guy C. Smith.—Dr. Carver has asked the question whether the Food Administration officials have made use of the inspection service of the United States Bureau of Markets. In reply, I would say, so far as Connecticut is concerned, the Federal Food Administration has made quite extensive use of that service in the markets of that state. Dr. Westerfield has stated that government inspection does not appear to him to be especially desirable because he thinks that not more than 1 per cent of the produce shipments are rejected by the receiver. Admitting that this percentage figure is correct, it, nevertheless, has a significance out of all proportion to that which would be indicated by its size, because the knowledge that even a small number of rejections are made does have a widespread effect upon shippers. Dr. Westerfield further states that with the development of coöperative associations the inspection service very properly could and should be furnished by them. The fact of the matter is, however, that at the present time only a representatively small percentage of the produce of the United States is sold through coöperative associations, and it will be a long time before that situation is materially changed. Therefore, to rely on an inspection service established by coöperative associations would simply be to delay that work for a great many years. It is the small individual shipper who most needs the protection of an inspection service, and the large percentage of producers in the United States fall in this class. It therefore seems to me that it is a very proper and valuable function which can be performed by the Bureau of Markets along this line.

Paul D. Converse.—Speculation in foods prior to November, 1917, was much more prevalent than many of us believed. The regulations of the Food Administration concerning speculation seem to have been well observed. Wholesalers and brokers in the New York market state that speculative buying and selling in that market was almost entirely stopped by the rules of the Food Administration. Dealers in certain lines whose business was largely speculative have been almost idle, while firms whose business was only partly speculative have had their operations greatly reduced. The effect of the Food Administration's rules was to stabilize prices and retard further advances during this critical period.

THE WAR AND THE SUPPLY OF CAPITAL

By David Friday

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By the end of the year 1916 it had become evident that the prophecies of economists and bankers concerning the effect of the European war upon the rate of interest in America had miscarried, despite the fact that these prophecies were all in strict accordance with orthodox economic reasoning. It had seemed perfectly clear that since the rate of interest was a price, and was therefore governed by supply and demand, it would rise. For the supply of capital which we had been receiving from Europe was sure to be cut off. Europe was certain to make a demand upon us for some of the capital which she had loaned us in past decades by throwing American securities upon our market at a price which would tempt capital abroad. She would also try to borrow through the flotation of government bonds, but these we rather thought would not find a ready market in a country so little addicted to saving and investment as America. The consequence would be a rise in the rate of interest, brought on by this checking of supply and the increase in demand.

Certainly one never felt himself upon safer and saner ground than when prophesying after this manner in the class-room, on the platform, or in the press, and yet it did not come to pass. Our supply was cut off, of course. By the resale of American securities and gold and by the flotation of government loans during 1915 and 1916 Europe was more successful in demanding and obtaining capital here than either she or we had thought possible. Between five and six billion dollars of capital were drawn from this country during those two years. In addition to this export demand for our capital we were expanding our plants at an unprecedented rate in our own country. All expectations of an increased demand for capital in the United States were therefore realized two or three times over. But at the end of 1916 the rates for both short-time bank loans and long-time investment loans were still low.

The obvious explanation of the failure of our prophecy would seem to be that the supply of capital had increased in such manner as to remain equal to the demand at a low rate of interest. The term supply of capital, as here used, refers to the excess of our production over our consumption; this excess constitutes our national savings, although one hesitates somewhat to use the latter term in this connection. Savings connote abstinence, and the

most careful observer of American life could hardly have found any increase in abstinence to explain the increased volume of savings. The reasons for the increase are to be found, not in "the expression of our indomitable national spirit through self-abnegation," but in the incidence of the institution of war upon our industrial institutions and processes. The increase in capital was largely unconscious so far as any general realization of its occurrence was concerned; it was costless, also, in the sense that it involved no lowering of the standard of living such as is connoted by the term "abstinence."

This hypothesis concerning the effect of the war upon savings is supported by the astounding feats of war finance which this country has been able to accomplish. During the summer and autumn of 1917 our economists and bankers were alarmed at the sums named by government officials as necessary to carry on the war. Fifteen billion dollars seemed to them an impossible figure, in view of the fact that only goods and services which represented an excess of production over consumption were available for carrying on the war. Two to three billion dollars was a figure commonly named by authorities as representing the normal savings of the United States; to multiply this by five seemed a Herculean task, to be accomplished only at a sacrifice comparable to that of the European peoples. But the war has been financed with only a slight decline in the state of well-being of the middle and upper classes, and with no decline in that of the great mass of laborers. It is no valid objection to this to say that this was done by inflation. The United States has furnished a large quantity of goods and services to the Allies as well as to its own government for the prosecution of the war. These represent production in excess of civilian consumption; they are savings, and give color to the hypothesis that the supply of capital had increased enormously at the time of our entrance into the war, and that it was this fact which made possible our feats in war finance.

The hypothesis here set forth concerning the supply of capital was first formulated in December, 1916. The statistical material which was then compiled, and that which has since become available, warrant the conclusion that the excess of production over consumption in the United States has been approximately as follows:

TABLE I

1913	$6,500,000,000
1915	9,000,000,000
1916	14,500,000,000
1917	18,000,000,000
1918	22,000,000,000

The field of capital accumulation has long been one of the darkest portions of economic statistical knowledge. There are no figures compiled which purport to show the addition to the wealth of the nation through savings. To get some quantitative expression of saving it is necessary, therefore, to utilize figures gathered for other purposes by various private and other agencies, and to interpret the data there presented in such manner as to throw light upon the hypothesis here under consideration.

The addition to the wealth of the nation through savings in the period previous to the European War was determined by comparing the wealth of the United States in 1912 with a similar inventory for 1904, as shown by the census volume on "Wealth, Debt, and Taxation," 1913. In comparing these two inventories to determine the amount added by production during this period, it was necessary to eliminate increases due to price changes and to the increased value of land. After determining the increase, the amount was distributed among the various years on the assumption that the increase was progressive, and a like increase was assumed for 1913.

TABLE II.—ESTIMATES OF CAPITAL WEALTH IN THE UNITED STATES, 1912 AND 1904
(Data from Bureau of the Census: "Wealth, Debt and Taxation," V. I, p. 21)
(In millions of dollars)

Item	1912	1904	Increase
Real Estate	110,676	62,341	48,335
Live stock, farm implements	7,607	4,919	2,688
Manufacturing, railroads, and public utilities	32,505	19,383	13,122
Gold and silver	2,617	1,999	618
All other	34,334	18,462	15,872
Total	187,739	107,104	80,635

According to the above figures the wealth of this country other than real estate increased by $32,000,000,000 during the eight years 1904-12, or an average of $4,000,000,000 per annum. Real estate increased $48,000,000,000, or about $6,000,000,000 per annum. Much of the increase in the money value of real estate does not represent savings, but is the result of a rise in land values brought about by increased population and industrial activity in the community. The building permits issued in the larger cities give some evidence of investment in new buildings. This amounted in 1913 to about $1,000,000,000 for 273 large urban communities. Besides these improvements in the real estate of large cities

there were large investments in towns and villages, and in farm improvements such as draining, clearing, fence and road building, and orchard planting and cultivation. An examination of the real estate assessments of twenty-four states which separate improvements on real estate from land values shows that improvements constitute approximately 40 per cent of the land values. This group includes such diverse communities as Arizona and Idaho on the one hand, and Greater New York on the other. The total assessed value of these twenty-four states is over $32,000,-000,000; the total exclusive of New York City is $24,000,000,000. It has therefore been assumed that 40 per cent of the increase in real estate values during the period 1904-12 was to be ascribed to improvements. The average annual increase in the value of real estate improvements was therefore, $2,400,000,000. This, added to the increase of $4,000,000,000 per annum in other wealth, gives a total of $6,400,000,000 as the increase in produced wealth per annum for the period.

Of this increase about $1,000,000,000 is due to a rise in the price level, and not to additional wealth production and saving. This leaves $5,400,000,000 as the average annual supply of capital for the period; but the increase during the years just before the war was more rapid, and undoubtedly reached the figure of $6,500,000,000 given above. This estimate is below the estimate of $7,500,000,000 made by George E. Roberts of the National City Bank.[1] He, however, makes no deduction for the increase in the price level from 1904 to 1912. It is also slightly under the estimate of Sir George Paish which appeared in the *London Statist* May 23, 1914. He places the annual growth of wealth in the United States at £1,400,000,000.

With this figure as a starting point the next problem is to discover some method of arriving at the increase in savings for subsequent years. The securities absorbed by investors of the nation furnish an approximation to the volume of savings of the nation. The following table shows the available statistics concerning securities issued and marketed, together with gold and securities repurchased from abroad during the period 1913-18. The amount increased from $2,053,000,000 in 1913 to $6,563,000,000 in 1916 and $14,010,000,000 in 1918. It takes no cognizance, however, of the corporate securities not listed by the *Journal of Commerce*. That these are considerable in volume becomes clear when we com-

[1] *Annals of the American Academy of Political and Social Science*, November, 1916.

pare the *Journal of Commerce* figures with the actual increase in capital obligations outstanding for all corporations. The total capital stock and bonded and other indebtedness outstanding for all corporations in the United States for the years 1910-13 are available in the reports of the Commissioner of Internal Revenue. During this period the increase for all corporations reported was $17,501,954,000. The *Journal of Commerce* reports the new securities issued in the same period as $7,157,084,000. It is evident that even allowing for the refundings in the *Journal of Commerce* figures and the discounts in the total figures there is a considerable volume of corporate securities of which the available statistics take no cognizance. It seems reasonable to put this at a minimum of $1,000,000,000 per annum for ordinary years, while in a year of great activity in corporate financing like 1916 it no doubt ran as high as $1,500,000,000. During 1918 it has been reduced materially. If these estimates are added to the subtotal which shows the published figures, we arrive at a grand total of $3,053,000,000 for 1913; $7,563,000,000 for 1916; and $14,510,000,000 for 1918.

Table III.—Capital Increase shown by Investments during 1913 and 1915-18
(In millions of dollars)

Item	1913	1915	1916	1917	1918
	$	$	$	$	$
Industrial and railroad securities*	1,645	1,435	2,186	1,529	1,345
Government securities					
Foreign	.....	1,275	1,381	805	640
United States	.....	.....	.....	5,833	11,760
State and municipal bonds**	408	493	496	445	265
Gold and securities repurchased from abroad	.....	1,300	2,000	700	.....
Sub-total	2,053	4,503	6,063	9,312	14,010
Other securities, less deductions for refunding and for discount	1,000	1,000	1,500	1,000	500
Total	3,053	5,503	7,563	10,312	14,510

*Reported by the *Journal of Commerce*.
**Reported by the *Bond Buyer*.

While this table no doubt proves that there has been a large increase in the volume of savings in this country since the outbreak of the European War, it cannot be taken as a safe index either of the total volume or of the relative savings of the different years. Only about one-half of the capital accumulations of this country come to the investment market within a normal year.

During 1917 and 1918 this ratio was increased by the necessities of war finance.

Two of the principal sources of capital accumulation in America are industrial and agricultural profit. The failure to realize this fact is probably responsible for the derogation in which we have held ourselves in this matter of savings. The volume of savings in the United States as compared with other countries has usually been underestimated, partly because of the slight attention given to certain sources of accumulation and partly because of a failure to distinguish between accumulation and investment.

In such a country as France, for example, a much larger proportion of the annual accumulations pass through the investment market than in the United States. France is less industrialized than the United States; the corporate form of business organization is less common; and there are fewer opportunities within the country calling for capital. The consequence is that saving is likely to take the form of an investment through the purchase of securities, and quite likely of foreign securities. Such saving becomes evident and lends itself readily to statistical measurement. But a comparison of annual savings based upon the sale of securities to investors would be valid only if the same proportion of savings in France and the United States were put into securities. There is in France nothing to correspond to the great volume of "corporate savings"[2] annually accumulated in the United States. The additions to corporate surplus do not normally pass through the security market and so commonly attract little attention, but they are none the less real. The railroads and industrial concerns in the United States have grown at a rapid rate, and in recent years they have added largely to the capital accumulations of the country through their additions to surplus.

The other institution which contributes largely to our capital accumulation without, in normal times, adding materially to the demand for securities is the American farm. The machine character of American farming, with its large use of capital per man and its rapid development, has called for capital accumulation; and the larger part of the savings which have gone into farm improvements has been made on the farm itself.

An examination of corporate savings shows a striking increase

[2] "Corporate savings" is that portion of the corporate net earnings not distributed to the shareholders as dividends. The term is familiar to all students and colleagues of Professor Henry C. Adams of the University of Michigan, who has for many years insisted upon the importance of the corporate institution as an instrument of capital accumulation.

in this form of capital accumulation; only a small portion of these savings ever came on the investment market. The expansion of American industrial plant proceeded at an unprecedented rate during 1915, 1916, and 1917, and the natural investment for the savings of the business enterprise was in extensions to its own plant and working capital. The following table shows the large increase in savings of corporations.

TABLE IV.—CORPORATE INCOME, DIVIDENDS, AND SURPLUS 1913-18
(In millions of dollars)

Year	Net Income	Dividends	Surplus before Taxes
	$	$	$
1911	3,213	2,225	988
1912	3,832	2,498	1,334
1913	4,340	2,871	1,469
1914	3,711	2,667	1,044
1915	5,184	2,766	2,418
1916	8,766	3,784	4,982
1917	10,500*	4,500	6,000
1918	9,500*	4,100	5,400

* Estimated.

The investigation into corporate savings took as a point of departure the net income of all corporations reported to the Commissioner of Internal Revenue for purposes of income and excess-profits taxes. These figures are available for the years 1910-13 inclusive in the Commissioner's report for the fiscal years 1911-14. For the years 1914 and 1915 the Commissioner of Internal Revenue published only figures for taxes assessed and collected, but from these figures the amount of earnings upon which the tax was based can be estimated with substantial accuracy. In 1916 the net income figures were once more published in "Statistics of Income." The figures for 1917 are estimated by using the returns published in the volume entitled *Corporate Earnings*, which was prepared in compliance with the Borah resolution; and by a study of the published returns of corporations. The figures of net income for 1918 can hardly be said to be anything more than an intelligent forecast based on a study of price movements and the quarterly reports of corporations.

The striking feature of these figures of net income is their enormous increase after the outbreak of the war. They express the increase in production which was stimulated by the European demand for our products, and the more rapid advance in the price

of products as compared with the prices of labor and materials.

In the report of the Commissioner of Internal Revenue the corporations are divided into five classes for the years 1910 to 1913. For 1914 and 1915 no figures of income are given, but the total may be computed from the taxes collected. In 1916 corporate net income is reported in "Statistics of Income" in eighteen main groups. These are so arranged, however, that they can be combined into five groups corresponding to the earlier classification. The net income of these different classes increased at varying rates and the percentage paid in dividends by each class varied widely. It was necessary therefore to divide the total net income for 1914 and 1915 into classes and to regroup the net income for 1916. The following table shows the net income of all corporations by classes for the years 1911-18.

TABLE V.—NET INCOME OF ALL CORPORATIONS IN THE UNITED STATES, 1911-18
(In millions of dollars)

Class	1911	1912	1913	1914	1915	1916	1917**	1918**
	$	$	$	$	$	$	$	$
Financial	457	482	439	425*	430*	528	630	600
Public Service.	806	930	1,003	850*	900*	1,541	1,550	1,200
Industrial	1,310	1,670	2,027	1,591*	2,790*	5,027	6,500	5,900
Mercantile ...	363	423	473	440*	572*	465	720	700
Miscellaneous .	277	327	398	405*	492*	1,205	1,100	1,100
Total	3,213	3,832	4,340	3,711	5,184	8,766	10,500	9,500

* Estimated as to distribution into classes
** Estimated

The next step was to determine the amount of the net income distributed as dividends by classes and years, and the amount which was retained as surplus. This was done by taking samples of the various classes of corporations and determining from their published data the percentage of dividends to net income and the percentage retained as surplus. In order to determine these items a study was made of the reports of national banks as published in the reports of the Comptroller of the Currency; of the statistics of state banks; of life insurance companies; the reports of railroads to the Interstate Commerce Commission; the reports of the more important public utility companies to the state commissions and in the standard manuals; and of 362 industrial corporations whose net income totaled $1,883,000,000 for the year 1916. The next tables show the results of this investigation when applied to the figures of net income in the table above.

TABLE VI.—ESTIMATED DIVIDENDS PAID BY ALL CORPORATIONS IN THE UNITED STATES 1911-18
(In millions of dollars)

Class	1911	1912	1913	1914	1915	1916	1917	1918
	$	$	$	$	$	$	$	$
Financial	342	372	319	335	311	370	420	400
Public Service..	609	717	693	730	665	843	840	700
Industrial	873	1,002	1,378	1,180	1,275	1,760	2,230	2,000
Mercantile	207	211	243	225	269	209	400	400
Miscellaneous ..	194	196	238	197	246	602	610	600
Total	2,225	2,498	2,871	2,667	2,766	3,784	4,500	4,100

TABLE VII.—ESTIMATED SURPLUS REINVESTED BY ALL CORPORATIONS IN THE UNITED STATES 1911-18
(In millions of dollars)

Class	1911	1912	1913	1914	1915	1916	1917	1918
	$	$	$	$	$	$	$	$
Financial	115	110	120	90	119	158	210*	200*
Public Service.	197	213	310	120	235	698	710*	500*
Industrial	437	668	649	411	1,515	3,268	4,270*	3,900*
Mercantile	156	212	230	215	303	256	320*	300*
Miscellaneous .	83	131	160	208	246	602	490*	500*
Total	988	1,334	1,469	1,044	2,418	4,982	6,000*	5,400*

* Before deducting corporation and excess-profits taxes.

The increase in net income of corporations for 1916 over former years is striking; but the increase in surplus for this year over former ones is much more so. The Class 1 and 2 railroads invested approximately $320,000,000 as surplus in the year ended June 30, 1916, as against an average of less than $84,000,000 for the eight years previous. A group of eighty-five public utility corporations whose surplus averaged $50,000,000 for the period 1911-14 retained $71,000,000 as surplus in 1915 and $109,000,000 in 1916.

Just as the most striking increase in net income occurred in the industrial group, consisting of mining and manufacturing corporations, so the largest increase in surplus occurred in these corporations. The published reports of 362 industrial corporations showed that they earned, after paying interest and taxes, $900,000,000 in 1915, of which they retained $497,000,000, or 55 per cent, as surplus. In 1916 these same corporations earned $1,883,000,000 and retained $1,219,000,000, or 65 per cent, as surplus. In 1917 earnings were $2,316,000,000 and surplus was $1,585,000,000 before deducting taxes. The figures of only 224 of these corporations are available over the entire period 1911-17. These are set forth in the table below, and show that during the years

1911-14 these corporations retained only 33 per cent of a much smaller income.

TABLE VIII.—STATISTICS OF INCOME, DIVIDENDS, AND SURPLUS FOR 224 INDUSTRIAL CORPORATIONS
(In millions of dollars)

Year	Net income	Dividends	Surplus	Per cent surplus to net income
	$	$	$	$
1911	431	287	144	33.3
1912	487	299	188	39.1
1913	507	328	179	35.3
1914	381	295	86	22.2
1915	664	327	337	50.9
1916	1,364	526	838	61.4
1917	1,750	600	1,150	65.7

When the facts concerning corporate savings are taken into consideration, it becomes clear that no accurate statement of the volume of savings or comparison of the different years can be made without including corporate surplus. In 1917 and 1918 a considerable portion of these corporate savings was paid as taxes. The same is true of a portion of the savings of individuals. In order to make a complete statement of the savings of these years it is therefore necessary to add the war taxes paid or reserved. The following table is a more nearly accurate presentation of the savings of the various years than the table of investments previously given.

TABLE IX.—CAPITAL INCREASE SHOWN BY INVESTMENTS, SURPLUS, AND WAR TAX RESERVES DURING 1913 AND 1915-18
(In millions of dollars)

Item	1913	1915	1916	1917	1918
	$	$	$	$	$
Industrial and railroad securities*..	1,645	1,435	2,186	1,529	1,345
Other securities, less deductions for refunding and for discount.......	1,000	1,000	1,500	1,000	500
Government securities					
Foreign	.....	1,275	1,381	805	640
United States	.....	.....	.....	5,833	11,760
State and municipal bonds**........	408	493	496	445	265
Corporate surplus after taxes.......	1,469	2,418	4,982	4,500	2,000
Gold and securities repurchased from abroad	.....	1,300	2,000	700	.....
War taxes paid or reserved........	.....	.....	.....	3,000	5,000
Total	4,522	7,921	12,545	17,812	21,510

* Reported by the *Journal of Commerce*
** Reported by the *Bond Buyer*

These figures are a pretty accurate index of the increase in savings during 1915 and 1916. They probably overstate the increase between 1916 and 1917 to some extent. After we entered the war there was considerable investment of corporate surplus in government securities. There is therefore some duplication in the figures above. There was also some purchasing of securities with bank loans; Hon. A. C. Miller of the Federal Reserve Board estimates that the banks own or hold as collateral five billion dollars of government securities. It must also be taken into account that the corporate surplus is expressed in terms of money, and in times of rising prices and increased inventories the surplus does not represent a commensurate excess of physical production over consumption. These three items may amount to as much as seven billion dollars in 1917 and 1918. If we deduct, therefore, three and one-half billion dollars from the figures shown in the table for both 1917 and 1918, the remaining totals will be as follows:

TABLE X

1913	$4,522
1915	7,921
1916	12,545
1917	14,312
1918	18,000

No allowance is included in the above table for the savings of different enterprises not under the corporate form of organization. These are large, and no doubt increase in somewhat the same manner as corporate savings. There is not much mining or manufacturing in this group, but the great mass of mercantile and professional activity is carried on under the private or copartnership form of organization.

The most important omission from the table, however, especially for 1917, is the savings of farmers. These no doubt increased enormously during the years 1917 and 1918. In 1917 especially only a negligible part of these was brought to the investment market by the farmers themselves. They were invested, as agricultural savings normally are, in the extension and improvement of farm machinery, live stock, and furniture; or in the discharge of indebtedness on mortgages or of obligations to banks and manufacturers of farm machinery. Agricultural savings depend more largely upon the value of farm products than upon any other single factor. The expenditures of rural families are rather constant, and every increase in the value of their product constitutes a fund, a large part of which is saved. The following table gives the value of farm products in the United States for the years 1911-

18, and shows that the farmers could easily make, during 1917 and 1918, large savings without any additional abstinence.

Table XI.—Value of Farm Products 1911-18, Based on Prices at the Farm
(In millions of dollars)

1911	$8,819
1912	9,343
1913	9,849
1914	9,895
1915	10,775
1916	13,406
1917	19,331
1918	21,386

The large increase in the value of farm products is due both to an extraordinary rise in prices and to an increased output. The production statistics show that all the important farm crops except wheat and cotton were approximately 30 per cent larger on the average in 1917 than in 1913, and 20 per cent larger than in 1916. While wheat and cotton decreased somewhat, the prices were so much higher than in former years as to practically double the farmer's return from these crops.

The increase in agricultural wealth previous to the war was about $1,200,000,000 per annum. We may assume, therefore, that this amount was saved out of the $9,849,000,000 of farm products. The remainder was fed to animals on farms or used to defray the expenses and living costs of the farmer and his family. If we assume that 20 per cent of the farm products is fed to animals, and that the farmer's cost of production and of living was 20 per cent higher in 1916, 60 per cent higher in 1917, and 75 per cent higher in 1918 than in 1913, we are forced to the conclusion that agricultural savings had reached $2,800,000,000 in 1916, $4,800,000,000 in 1917, and $5,500,000,000 in 1918. This computation is set forth in tabular form below.

Table XII.—Agricultural Savings
(In millions of dollars)

Description	1913	1916	1917	1918
	$	$	$	$
Value of all farm products	9,800	13,406	19,331	21,386
Fed to animals (20%)	1,960	2,681	3,866	4,277
Consumed by persons and sold	7,840	10,725	15,465	17,109
Expense of farm operation and cost of living	6,640	8,000	10,624	11,620
Savings	1,200	2,725	4,841	5,489

While the conclusion with respect to agricultural savings presented by this table rests on rather a broad assumption of fact, it

no doubt represents the general trend of agricultural savings. Even if the percentage of produce consumed on the farm were increased to 30 per cent, and the farmer's expenses and cost of living were increased 100 per cent—an altogether improbable hypothesis—the savings for 1918 would still be $3,650,000,000. The assumption expressed by the tabulation is reasonable and agricultural savings were no doubt approximately five billion dollars for 1918.

A portion of these funds came to the general investment market in 1915, 1916, and 1917. Farms during this period were actively paying off their mortgages and other indebtedness. An unusually large volume of real estate mortgages held by life insurance companies was paid during these years. The manufacturers of farm implements likewise experienced a great reduction in bills receivable and accounts receivable during this period despite the fact that the sales of farm machinery were large in 1915. This movement of funds was in part responsible for the abundant volume of capital available in the investment centers for the repurchase of American securities from abroad and for the absorption of European government issues. The greater portion of these savings during 1915, 1916, and 1917 went, however, into farm improvements and must therefore be added to the figures of savings given above.

When allowance is made for agricultural savings reinvested in farms and for the reinvested earnings of individuals and partnerships, the following figures, which were presented in the first table, are sustained.

Table XIII

1913	$6,500,000,000
1915	9,000,000,000
1916	14,500,000,000
1917	18,000,000,000
1918	22,000,000,000

Are these conclusions with respect to the increase of savings during the war reasonable in view of the course of production and prices during the same period? Statistics of production show that there has been an increase of 25 per cent in actual physical output since 1913. This increase had been pretty well realized by 1916, and despite the withdrawal of men from industry by the military establishment has been maintained since. Such statistics as are available show that consumption has not increased more than $12\frac{1}{2}$ per cent during the same period. The national income in 1913 is estimated at $34,500,000,000; of this amount $6,500,-

000,000 was saved and $28,000,000,000 was therefore consumed. If prices had remained constant then the increase in production and consumption would have increased savings to $11,500,000,000, as shown in the following table.

TABLE XIV
(In millions of dollars)

Item	1913	Increase	1916	1918
	$	%	$	$
National income or product........	34,500	25	43,000	45,000
Consumption	28,000	12½	31,500	33,000
Savings	6,500		11,500	12,000

In this tabulation the product, consumption, and savings are all shown at the price level of 1913. To state the savings of the later years in terms of the price level of those years they must be increased by the ratio which the level of each year bears to 1913. According to the Bureau of Labor index number of wholesale prices, this was 123 per cent in 1916, and 196 per cent in 1918. Expressed in terms of 1916 prices the savings of that year were $14,145,000,000. For 1918 savings amounted to $23,500,000,000. These figures of production and consumption are based to some extent on estimates; they do, however, show that the conclusions with respect to the increase in savings do not involve any improbable assumptions with respect to the course of industrial process.

In the following table an attempt has been made to show what classes have supplied this total of accumulated savings and how it is divided among them. The table divides the supply of capital into the portions accumulated by corporations through the retention of income as surplus instead of disbursing the same out as dividends; by other business enterprises not under the corporate form of organization; by farmers; and by all other classes out of their individual incomes.

TABLE XV.—TOTAL EXCESS OF PRODUCTION OVER CONSUMPTION
(In millions of dollars)

Item	1913	1915	1916	1917	1918
	$	$	$	$	$
Corporations	1,500	2,400	5,000	6,000	5,400
Other business enterprises..........	1,200	2,000	3,000	3,500	3,600
Farms	1,200	2,000	2,800	4,800	5,500
All other savings..................	2,500	2,600	3,700	3,700	7,500
Total	6,400	9,000	14,500	18,000	22,000

During this same period our national income has increased from $34,500,000,000 in 1913 to over $70,000,000,000 in 1918.[3] Enormous as are the increases in savings expressed in dollars the percentage of our income saved increased only moderately. The savings of 1913 were approximately 20 per cent of the income of that year, while those of 1918 were 30 per cent.

The data here set forth to support the hypothesis that the European War has produced a large increase in the excess of production over consumption in America lead to several relevant conclusions:

1. The feats of war finance, both in the collection of taxes and the flotation of loans in this country, were made possible by the situation with respect to production and savings which had developed previous to our entrance into the war. The principal thing needed was to devise ways and means of diverting the excess of production over consumption, already forthcoming, from private uses into the public coffers by taxes and government loans.

2. No adequate explanation of the movement of the rate of interest during the years 1915 and 1916 is possible which does not take into consideration the increased supply of capital which grew out of industrial activity and profits.

3. The psychological factors of abstinence and the underestimation of future goods are entirely inadequate to explain the fluctuations in the supply of capital. In periods of rapidly increasing production and profits a high interest rate is not necessary to stimulate savings. In such periods the institutional situation which characterizes modern industry produces an enormous increase in the supply of capital. The causal relation at such times does not run from a high rate of interest to an increased supply of capital. Instead, factors outside the capital market produce an increase in its supply, and this operates to keep the interest rate low. One is reminded here of Cassel's statement that "much work remains to be done before we get a real knowledge of the manner in which the total amount of waiting depends upon the rate of interest. As to such knowledge, we cannot pride ourselves on being much in advance of the English authors of the seventeenth century, such as Sir Josiah Child and Sir William Petty."[4] The whole field of the statistics of savings certainly deserves much more thoroughgoing and detailed attention than it has yet received.

[3] B. M. Anderson, The *Annalist*, Jan. 6, 1919, p. 5.
"Taxable Income of the United States," *Journal of Political Economy*, December, 1918, p. 952.
[4] G. Cassel, *The Nature and Necessity of Interest*, page 43.

THE WAR AND THE SUPPLY OF CAPITAL—DISCUSSION

HERMANN F. ARENS.—To what do you attribute the great increase in the production and producing powers which you have shown? Was it not brought forth by the great profits which business enterprises have been able to make because of extraordinarily high prices?

DAVID FRIDAY.—Undoubtedly. The high prices of products as compared with the prices of production goods and of labor is the explanation of this increase in productive output.

MR. ARENS.—Do you think that this rate of production could be maintained on a falling market?

MR. FRIDAY.—I wish it could, but I am certain it cannot unless some institutional arrangement can be effected by which entrepreneurs can be guaranteed against the risk of financial extinction through industrial loss. I feel that the fear of loss is the chief factor that keeps entrepreneurs from going ahead with confidence. Since demand depends upon production, there is no real necessity of a fall in production and consequent loss, but falling prices are expected by the public and entrepreneurs will be deterred by the risks of business from utilizing the productive capacities of the country to the fullest extent.

ELISHA M. FRIEDMAN.—Professor Friday's results are to be qualified on four grounds. He states that twelve billion dollars can be saved annually by the American people. In arriving at this result he adds investments, government bonds, corporate surplus, and reserves for war taxes. The elements of error are as follows:

1. *Duplication.*—Several items are duplicated. To add surplus and investments is to count the same dollar twice, once as an asset item, and once as part of the capital account. Corporate surpluses are usually invested and sometimes in Liberty Loan bonds.

2. *High prices.*—At present high price levels, inventories are unusually large. The increase on the asset side of the balance sheet is a source of the large corporate surpluses. They are not permanent. When prices fall, the surpluses will decrease and the "savings" based on inflated prices vanish.

3. *U. S. Government bonds.*—These do not represent the nation's savings exclusively. In large part, bonds were bought by individuals and corporations by borrowing at the banks, and may represent the savings of the following year. The banks themselves have been large subscribers. Proof that U. S. Government bonds do not entirely consist of savings of a year is afforded by: (a) the transfer of money from non-

government investments into Liberty bonds (the stock market declined during the Liberty Loan flotation); (b) heavy increases of government war paper in banks' assets; (c) the decline in Liberty Loan quotations since the signing of the armistice due to liquidation by holders who borrowed to buy them. The European Government bonds rose in this period.

4. *Comparative savings.*—Great Britain before the war saved somewhat over a billion a year, Germany and France a little under a billion. A. A. Noyes estimated that Europe saved about $2,500,000,000 a year before the war. Can we save five times as much as all of Europe?

Simon Litman.—If I understand Professor Friday correctly, he considers that the American people have been wrongfully accused of being less saving than the thrifty inhabitants of European countries because the amount of capital formed each year in the United States has been greater than in any European country. Without entering upon a discussion of the validity of the accusation itself, I wish to suggest that Professor Friday's establishment of the fact that our yearly accumulation of capital has been greater than anywhere else, does not meet the arguments of the accusers. The knowledge that the yearly supply of new capital in the United States is much greater than the supply of any other nation does not assist one in answering the more pertinent questions, i.e., what proportion of our national dividend do we capitalize as compared with what is capitalized in France or in Germany; and how far do the various classes of our population, grouped by incomes, contribute through their individual savings towards the formation of new capital, as compared with similar groups in Europe. Only such a comparison can throw some definite light on the situation.

THE WAR AND INTEREST RATES

By E. W. Kemmerer
Princeton University

During the early months of the great war, there was a widespread belief among economists that the war would cause an early advance in interest rates in the United States, and that the level of interest rates would tend upward during the continuance of the war. This judgment appeared to have the support of both sound theory and historic precedent.

Let us consider briefly the theoretical and historical basis for this judgment, review the actual movement of interest rates during the period of the war, and attempt to give some explanation of this movement. This is a large program for a twenty-minute talk and I can only hope to discuss briefly the more important points.

It is a fact of elementary economics that the market rate of interest consists of three elements: (1) pure interest, (2) an item representing insurance against estimated risk, and (3) an item representing administrative expenses incurred in connection with the making and carrying out of the loan contract. A time of a great world war is a time when one would expect all three of these elements in the interest rate to advance.

Pure Interest

The rate of pure interest is the rate of agio or premium, expressed in terms of a percentage of the capital sum, which represents the market preference for capital today over an assured right to the same amount of capital with value unimpaired at some future date. One would have a close approximation to pure interest in the case of a bond issued by a strong government, having a small debt, if the bond were sold without commission or any other administrative charge, were payable in a currency whose purchasing power was absolutely stable, and were saleable in the market, or otherwise convertible, at any time, without expense, at par and accrued interest.

Certainly the rate of pure interest would be expected to advance during the progress of a great war. The movements of the rate of pure interest, like those of every other price, are the resultants of the interaction of demand and supply; in this case the demand for capital and the supply of capital. When the demand

for capital for present-day needs is large and the supply relatively small, the public is willing to sacrifice the future for the present and the strong time preference for present capital registers itself in a high rate of interest; and, vice versa, when the demands of the present are fairly well met the future looms larger and a lower rate of time preference for present capital as compared with future capital registers itself in a lower interest rate. The days of the greatest war in history were days when the public in belligerent countries and in countries of benevolent neutrality as well were willing to exploit heavily the economic future in order to provide an abundance of present military supplies so as to win the war quickly with a minimum sacrifice of human life. To do this the world was exploiting its natural resources and driving its economic machinery at rates never known before. The war's demands were preemptory, and the meeting of them promptly was imperative. To that end, from the economic point of view, the present was the all-important time; the future was secondary. This meant an overwhelming emphasis upon present goods as contrasted with future goods—present goods that were conducive to the winning of the war. It meant also that those goods must be produced under heavy handicaps. Millions and tens of millions of the world's most efficient men were taken to the front, and the world's labor supply was greatly curtailed. Business was disorganized by a reduced and changing labor force, and by a shifting of economic demands. The world was destroying capital at an unprecedented rate; the building of new capital equipment, except that demanded for the destructive purposes of war, was practically suspended. A time of war was no time to tie up labor and capital in new equipment whose usufructs would come chiefly in the after-war future. Even the maintenance of existing equipment not needed for war purposes was to a substantial extent sacrificed. All this would be expected to result in a large premium upon present goods over future goods, in a large and increasing demand for capital in the face of a declining or relatively declining supply. This is the stuff out of which high rates of pure interest are made.

Insurance

The second element in the market rate of interest is the factor of insurance against risk of loss. Securities that pay high rates of interest proverbially involve large risks. The high rates are neces-

sary to tempt the public to purchase securities whose purchase in the judgment of the market involves a substantial risk of loss. This insurance factor is also an element in the interest rate in the case of debts payable in a currency which gives prospect of decreasing rapidly in value during the period of the loan contract. The insurance element in the market rate of interest, like the pure interest element, one would expect a great war to increase. Belligerent countries were extending their credit to the limit and depleting their resources both material and human. Neutral countries were in danger of being dragged into the struggle at any time. The outcome of the war was uncertain almost to the last, and the imposition of heavy indemnities upon the defeated nations was ever in prospect. Governmental breakdown with resulting anarchy in some at least of the belligerent countries was an ever present possibility. As public debts grew, the danger of ultimate repudiation was more frequently thought of, while paper money of rapidly increasing quantity depreciated materially in terms of gold in most of the belligerent countries. The percentage of gold reserve to circulating credit declined rapidly in all belligerent countries. While in all these respects conditions were much better in the United States than in Europe, we could not escape being greatly influenced by these European conditions, even before we entered the war. A breakdown of the credit of either England or France, or the military defeat of the Allies, would have had serious consequences, as regards credit conditions, in the United States. After we entered the war, we began piling up our own public debt at unheard of rates. All this meant that as the war progressed the insurance element in interest rates, both in government debt and in corporate and private debt, would have been expected to be an element of increasing weight.

Administrative Expense

The third element in the interest rate, namely, a charge to cover administrative expense, is a minor one and may be passed over in a few words. Every grade of money lender from the pawnbroker to the large banker has his overhead and his current running expenses to meet. The interest rate paid by the borrower must exceed pure interest and insurance by enough reasonably to cover these expenses, or the business will not be carried on. This administrative expense element in the interest rate is negligible in the case of the government debt, for the public here are the lenders

and the lending is made possible without appreciable expense to the lender. In the case of loans, however, by concerns which make the lending of money their business, such as banks, the element of administrative expense would be expected to rise during a great war. At such a time the overhead expenses of banks are likely to increase. The demand for men for war activities depletes and disorganizes their administrative and clerical force and pushes up wages, while the great demand for war supplies is likely to force up the prices of many of the material supplies used by banks.

Summarizing the theoretical argument, we may then say that there are usually three component elements in a market rate of interest—pure interest, a premium to cover insurance against risk, and a price to cover administrative expenses; and that a great war would be expected to set into operation forces that would push up each of these elements and therefore market rates of interest themselves, of which these elements are the constituent parts.

The Evidence of History

History knows of no war of the magnitude of the one through which the world has just passed. Most of the great wars of history, moreover, occurred before the development of well organized money markets, international in their scope of operation. By reason of its magnitude, its duration, its recent date, and of the financial records it has made available, probably the American Civil War offers the best field for a study of an historical precedent as to the effects of a great war upon interest rates. The American figures for the Civil War, however, are somewhat vitiated as a basis for comparison with the American figures in the recent war by the fact that they represent for the most part interest rates on loans floated during a period when the currency was greatly depreciated in terms of the gold and silver legal units of value, and when the insurance element was a rapidly fluctuating one, due to the ups and downs of the Union cause.[1] A more trust-

[1] The yearly average rate of interest in New York during the period 1860-66 were as follows:

Date	60 day paper	Prime two-named 60 day paper
1860	8.4	7.7
1861	9.0	6.6
1862	6.8	5.4
1863	6.7	5.8
1864	9.3	8.0
1865	10.2	8.2
1866	7.8	6.3

Irving Fisher, *The Rate of Interest*, p. 420.

worthy historical basis of comparison for a study of American interest rates in the recent war would probably be London Bank of England rates during the Civil War. In the case of London rates we have rates for a neutral gold standard country which are comparable with the rates in the United States, which was a gold standard country throughout the recent war and a neutral country for about 63 per cent of that war.

The following table and chart show the movement of Bank of England minimum rates of discount by quarterly periods for the years 1860-1865.[2]

MINIMUM OFFICIAL DISCOUNT RATES OF BANK OF ENGLAND, QUARTERLY PERIODS, 1860-65

(Rates weighted according to number of days in operation)

1860	(1)	3.20	1863	(1)	4.10
	(2)	4.45		(2)	3.75
	(3)	4.00		(3)	4.00
	(4)	4.70		(4)	5.80
Year		4.10	Year		4.40
1861	(1)	7.30	1864	(1)	7.20
	(2)	5.65		(2)	7.10
	(3)	4.15		(3)	7.60
	(4)	3.20		(4)	7.85
Year		5.08	Year		7.45
1862	(1)	2.55	1865	(1)	5.05
	(2)	2.70		(2)	3.85
	(3)	2.20		(3)	3.70
	(4)	2.70		(4)	6.50
Year		2.55	Year		4.75

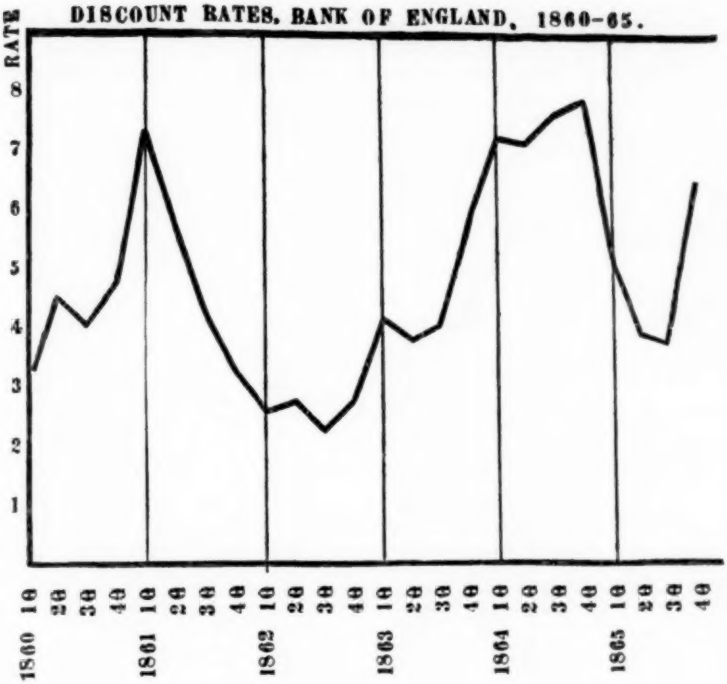
1866	7
1867	2 ½
1868	2 ¼
1869	3 ¼
1870	3 ⅛

The figures show a downward tendency throughout 1861 and the first quarter of 1862, and then a general upward tendency until the end of 1864, reaching a maximum of 7.85 per cent for the last quarter of 1864, followed by a steady decline until the last quarter of 1865.

Interest Rates in the United States 1913-18

Let us now turn to the movement of interest rates in the United States during the recent war, bearing in mind the important fact that throughout the war the gold standard was maintained and all

[2] Figures are weighted according to the number of days each rate was in operation. They were computed from the data given by the report of the Royal Commission of the depression of trade and industry in its first report in 1886 (C ÷ 4621, p. 161).



kinds of money and deposits in solvent banks were maintained, with slight qualification,[3] at par with gold. The movement of American interest rates by quarterly periods for the years 1913 to 1918 is shown in the following table[4] and chart:

[3] During the latter days of the war it was reported that a small premium on gold appeared in California.

[4] Figures for call rates, 60 to 90 day, two-name commercial paper rates, and 6 months' time loans were computed from data given in the *Financial Review* and the *Commercial and Financial Chronicle.* Figures for long term rates are the average yields on ten high grade investment railroad bonds. The bonds selected are those used by Wesley C. Mitchell in his "American Security Prices and Interest Rates" (*Jour. Pol. Econ.,* XXIV [1916], pp. 126-157) and are as follows: A. T. & Sf. Adj. 4's of 1995; C. R. R. of N. J. Gen. Mortg. 5's of 1987; C. & O., 1st consol. mortg. gold 5's of 1939; C. B. & Q., Neb. ext. 4's of 1927; C. M. & St. Paul, genl. mortg., series A., 4's of 1989; C. St. Paul, M. & O., consol. 6's of 1930; N. Y. C. & St. L., 1st mortg. gold 4's of 1937; Penn. consol. gold 4's of 1948; Reading genl. gold 4's of 1997; West Shore 1st mortg., Gt. by N. Y. Cent., 4's of 2361.

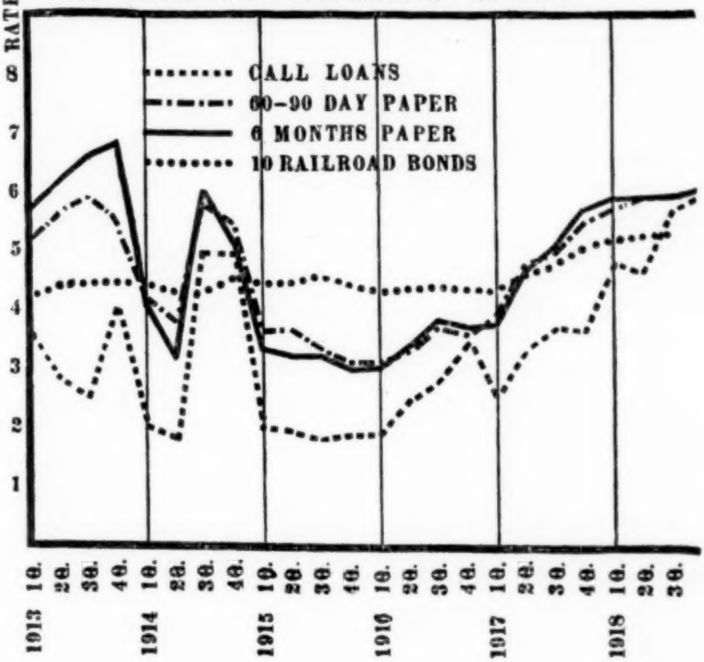
Mitchell found it necessary to make certain adjustments in computing the

TABLE SHOWING MOVEMENT OF AMERICAN INTEREST RATES BY QUARTERLY PERIODS, 1913-1918

Period	Call	60-90 two-name paper	6 mos. paper	West Shore 4's	10 Ry. Bonds
1913					
1 quarter	3.58	5.20	5.75	4.10	4.22
2 "	2.81	5.59	6.15	4.25	4.37
3 "	2.47	5.95	6.58	4.25	4.42
4 "	4.02	5.64	6.31	4.35	4.43
year	3.22	5.60	6.20	4.20	4.36
1914					
1 quarter	2.02	4.19	4.05	4.30	4.43
2 "	1.82	3.81	3.17	4.30	4.30
3 "	4.97	5.78	6.03	4.30	4.28
4 "	4.93	5.45	5.16	4.50	4.53
year	3.43	4.84	4.59	4.35	4.36
1915					
1 quarter	2.01	3.66	3.35	4.40	4.45
2 "	1.96	3.68	3.23	4.40	4.45
3 "	1.81	3.36	3.23	4.50	4.57
4 "	1.88	3.11	2.98	4.40	4.41
year	1.91	3.44	3.19	4.45	4.47
1916					
1 quarter	1.89	3.12	3.01	4.35	4.32
2 "	2.45	3.28	3.38	4.40	4.35
3 "	2.75	3.70	3.82	4.45	4.38
4 "	3.39	3.58	3.70	4.35	4.33
year	2.62	3.42	3.47	4.40	4.35
1917					
1 quarter	2.53	3.89	3.73	4.40	4.32
2 "	3.30	4.73	4.62	4.60	4.58
3 "	3.66	4.91	5.04	4.90	4.73
4 "	3.60	5.44	5.68	5.00	5.05
year	3.27	4.75	4.77	4.70	4.67
1918					
1 quarter	4.73	5.70	5.88	5.10	5.17
2 "	4.59	5.88	5.88	5.25	5.24
3 "	5.64	5.91	5.93	5.55	5.29
Oct. to Nov.	5.88	6.00	6.00		
year	5.21	5.87	5.92		

average yield of his bonds for the years succeeding 1912 in order to make the figures comparable with his figures for earlier years. Inasmuch as comparisons with years prior to 1913 are not needed for the purposes of the present study, these adjustments of Mitchell's needed to be eliminated. I have accordingly recomputed the figures eliminating Mitchell's adjustments and bringing the figures down to date. See Wesley C. Mitchell, "Amer. Secur. Prices and Int. Rates," in *Journal of Political Economy*, XXIV (1916), p. 143.

THE WAR AND INTEREST RATES.



A reference to the chart reveals three striking facts. They are: (1) Aside from a sharp advance during the early months of the war—a time when comparatively few loans were made and comparatively few securities sold, because the New York Stock Exchange bond market was closed four months (July 30 to November 28)—and aside from an equally sharp decline toward the end of the year 1914, all rates ruled comparatively low until about the end of 1916. (2) About the beginning of 1917 all rates began a pronounced upward movement which continued until the end of the war, or until they were practically pegged by the operation of the New York Money Committee.[5] (3) Rates on call loans, on

[5] This Money Committee was a subcommittee of the Liberty Loan General Committee of New York and was appointed September 5, 1917, "for the purpose of securing the most complete coöperation with the government in its financial program by all the financial interest of the city." Under the leadership of this committee many of the larger banks of the city in coöperation with the Federal Reserve Bank adopted a policy of practically rationing the money market, and by means of funds at the disposal of the coöperating banks, practically pegged short-time interest rates in the neighborhood of 6 per cent from the beginning of 1918 until the end of the war.

60 to 90 days' commercial paper, and on 6 months' paper ruled exceptionally low during 1915 and 1916, and at levels much below the average rate of yield on railroad bonds.

The chief reason why rates on call loans and loans of short maturities ruled so much lower than the rates of yield on railroad bonds, was, I believe, the desire of the money-lending public to keep control of its funds. These were times of great uncertainty, both economic and military. No one knew what big things a day might bring forth. The thinking public, moreover, in general expected the war to bring substantial and continual advances in interest rates. Under such circumstances the public naturally did not wish to tie up its funds in long time maturities.

Interest Rates Advance in 1917 and 1918

Advances in interest rates during 1917 and 1918 would naturally have been expected under the operation of the economic forces previously described. Of course these forces were greatly accentuated when the United States came into the war and when we began our tremendous war expenditures, accompanied by our large flotation of liberty bonds. The surprising thing is not that interest rates rose substantially in 1917 and 1918, but that their rise was postponed until such a late date.

Explanation of Low Interest Rates during 1915 and 1916

How can the prevalence of such low interest rates throughout 1915 and 1916 be explained? The chief answers to this question, I believe, are two-fold: (1) that the low market rates of 1915-1916 are largely attributable to the great money and deposit currency inflation which the country was experiencing at that time; and (2) that the rates on long-time securities were low only nominally and will prove to be actually high rates camouflaged by inflation. Let us consider these two propositions in their order.

Low Interest Rate of 1915-1916 Largely Attributable to Inflation

An interest rate from one point of view is a rental price for capital expressed in terms of a percentage of the capital value rented. Money, and deposit credit giving the right to draw money on demand, are forms of capital. They are distinctive in respect to the fact that nearly all transfers of capital goods are effected through their mediation. The result is that the public think of capital continually in terms of money, and they reason

that to increase one's supply of money is synonymous with increasing one's supply of capital. From such reasoning the conclusion is a natural one that a government in great need of military supplies for carrying on a war will be able to obtain them roughly in proportion as it is able to obtain possession of this important intermediary good, namely, money; and that the lower the interest rate at which it is able to borrow this money the lighter will be the financial burden imposed upon the public by the war.

Building upon premises like these, the logical policy to have pursued in the United States would have been something as follows: (1) to encourage the importation of gold into the country and to place an embargo on its exportation; (2) to discourage the circulation of gold within the country and to impound the gold so far as possible in the vaults of the federal reserve banks, where as a reserve for federal reserve notes and a reserve for reserve deposits of member banks it would have its maximum efficiency as regards the amount of circulating credit it could support; (3) to encourage the banks to extend credit freely to the government by the purchase of certificates of indebtedness and liberty bonds; and (4) to encourage the banks to loan freely to the public on the security of liberty bonds so that the public might buy the maximum amount of bonds and turn over to the government the maximum amount of money and deposit credit; (5) to assist the banks in carrying out this program by reducing their legal reserve requirements and by lending to them freely through the federal reserve banks at rates of interest low and profitable to the banks and on the security of paper collateraled by the government debt; (6) to leave government funds so far as possible on deposit with commercial banks so as to avoid credit contraction and, to that end, to excuse banks from holding legal reserves against government deposits.

Now all of these measures, and others of a similar character, are in fact to be found in the financial program followed by the government during the war period. What actual economic philosophy was back of these measures in the minds of those responsible for them it is of course impossible to say. In many cases it was probably not the naïve economic philosophy above described, for accompanying this program there were some vigorous and wholesome efforts on the part of many in high official position to induce the public to speed up production, economize consumption,

and reduce the absorption of labor and capital in non-essential or less essential industries. None the less, in the main, the government's loan, currency, and bank-credit policies resulted in making capital in the form of money and deposit credit plentiful and in thereby holding down the interest rates.

These results were accentuated by the facts: (1) that belligerent Europe had much to buy of us during the war and little to sell to us except securities and gold, leading to a net importation of about a billion dollars of gold into the United States during the period of the war; and, (2) that the establishment of our federal reserve system in the early days of the war greatly improved our currency and banking mechanism, making each dollar in active circulation and each dollar in bank reserve much more efficient than ever before, in other words, enabling each dollar to do a greatly increased amount of money work. This in its effect was the same as a further great increase in the supply of currency and circulating credit.

Under such influences, while the country's physical volume of business increased about 12 per cent from 1913 to 1917, its supply of money in circulation increased 45 per cent, its bank deposits (exclusive of savings banks deposits and deposits of one bank in another) increased 74 per cent,[6] and the rate of deposit currency circulation, according to Irving Fisher,[7] increased from 54.0 to 92.4 or 71 per cent.

These developments and devices were all forces that tended to hold interest rates down; but they were likewise forces that led to great expansion of currency and deposit credit and thereby tended to push prices up. They were largely responsible for the tremendous advance in the price level which has taken place since 1913, an advance which measured in terms of wholesale prices means a cutting in half of the purchasing power of the dollar.

We bought our low interest rates at the price of very high prices; we kept interest rates down by pushing price levels up. The government was enabled to borrow at low interest rates partly, it is true, by capitalizing patriotism, but partly also by policies

[6] For detailed figures upon this subject see E. W. Kemmerer, "Inflation" in *American Economic Review,* June 1918, p. 247, et. seq.; also report of the War Finance Committee of the American Economic Association, December, 1918, pp. 93-114.

[7] See Irving Fisher, "The Equation of Exchange for 1914 and the War" in *American Economic Review,* June, 1915, chart facing page 1; and December, 1918, p. 871.

which led to tremendous inflation. The latter forces, but not the former, also directly held down interest rates for corporate and individual borrowers. Both the government and the public paid lower nominal rates of interest than they otherwise would have paid, by reason of this situation; but it does not follow that they will pay lower *amounts* of interest, for the very policies that kept interest rates down pushed prices up and the borrower was accordingly compelled to pay higher prices and thereby borrow larger sums of money than he otherwise would to buy the same supply of goods.

This brings me to my last point, namely, that the low rates of interest on long-time securities will probably prove to be actually high rates before the obligations are paid. The government has been borrowing dollars of low purchasing power; likewise have the few corporations that have floated long-time bonds during the war period. If the dollar of 1913 is called a 100 per cent dollar, that of today, in terms of purchasing power over commodities at wholesale, is less than a 50 per cent dollar. If the next few years witness a gradual deflation of our currency and credit, as most economists expect, and the purchasing power of the dollar rises, the debtors will be required to pay their debts—principal and interest—in more valuable dollars than they borrowed. This agio in the value of the dollar they will repay over the value of the dollar they borrowed will be part of the interest rate, but they will not recognize it as such. It is likely to make the actual or purchasing power interest rates on long-time loans, floated during the war period, very high ones.

In conclusion, let me say with emphasis that in what has been said I am neither condemning nor approving the government's low-interest, inflationary, war-finance policy. It has had its advantages and disadvantages. For the United States it probably succeeded better during a nineteen months' war than it would have succeeded during a longer one. Today, however, my purpose is not to appraise but to explain.

THE POSSIBILITY OF COMPILING AN INDEX OF THE COST OF LIVING

By Royal Meeker

United States Bureau of Labor Statistics

The high cost of living has nothing to do with high prices. It is merely the common term used to express the relation between the price of labor (wages) and the prices of foods, clothes, house room, fuel, etc. The high cost of living stalked through the land even in the days of Charlemagne, when a whole beef could be bought for less than the price of a single sirloin steak today. Men complained bitterly of the high cost of living in that golden age when eggs sold for 8 cents a dozen instead of 8 cents apiece. Probably we pay at least twenty times as much for the necessities and comforts of life today as men paid in the thirteenth century, but the cost of living is no higher now than then, and we undoubtedly live much more comfortably, completely, and healthfully. In fact, we might say that generally the lower the prices the higher the cost of living. In India and China, long the countries of lowest prices, the cost of living is so high as to put life itself beyond the purchasing power of tens of thousands of the people.

The price level is of no consequence, except to the mere historian and antiquarian. It is the changing of price levels which causes distress and is of concern to the economists and all who buy and sell things. This has been recognized from the beginning of history. Efforts have been made from the earliest times to fix prices by royal proclamations, decrees, and by legislative enactments. Some economists, notably, General Francis A. Walker and Colonel William Jennings Bryan, have advocated a bimetallic coinage on the ground that prices would thereby be held more stable, the theory being that when gold is plentiful and cheap, silver would be rare and dear, and vice versa, so that fluctuations in the purchasing power of both metals would never be as great as the fluctuations in either one separately.

A good many economists have theorized about a commodity standard of value, setting forth its theoretical advantages. The latest commodity standard plan—and to my mind the only one likely to succeed—is President Irving Fisher's well-known plan for standardizing or stabilizing the dollar. This plan depends absolutely for its workability upon the possibility of computing a reasonably accurate cost-of-living index. Unless this can be done, it is not worth while talking about the great benefits that would result if the impossible were possible.

Until quite recently I have felt doubtful about the practicability of changing the present dollar from a most deceptive, inconvenient, and mischievous standard of weight, constantly changing in value, into an approximately unchanging standard of value, constantly changing in weight. My scepticism was due to the staggering difficulties in computing a satisfactory index of the cost of living. It seemed another instance, so familiar to the economist, especially the tariff economist, where a proposal is "all right in theory but won't work in practice." The very foundation of the "stabilized dollar" is the index number of the cost of living. As it is one of my principal jobs to furnish the country and the world with index numbers showing changes in prices of various commodities at wholesale and retail, no one realizes quite so keenly as I just how unstable the basis for the "stabilized dollar" really is, or rather was until this present moment. I do not need to waste time in pointing out the absurdity of using a wholesale price index as indicative of changes in the cost of living for the purpose of stabilizing the dollar. Retail prices of all commodities consumed by the great mass of people are the rock bottom upon which a commodity standard of value must rest. Until now, I have been wholly unwilling to recommend the United States Bureau of Labor Statistics retail price indexes as a suitable foundation for Professor Fisher's "stabilized dollar." The retail price index published every month in the *Monthly Labor Review* is an index number of the retail prices of food commodities only. Expenditures for food make up more than 40 per cent of the total budget of the families of shipyard workers, but I think it would be wholly inadvisable to change the gold content of the "stabilized dollar" to conform with changes in the prices of food alone. This would not be a fair test of the underlying principle in Professor Fisher's scheme. I, for one, would not be willing to risk the stability of the "stabilized dollar," stabilized on less than half the total family expenditure. It so happens that the percentage changes in the cost of the family food budget during the period since 1913 does conform rather closely with changes in the cost of the whole family budget as shown in our studies of cost of living in shipbuilding centers. But this is largely fortuitous and somewhat fictitious. When prices come down, as they probably will some day, we cannot assume that food prices will move in unison with the prices of other commodities consumed by workers' families. If we are to advocate a "stabilized dollar" (which is merely another name for a commodity standard of value, or what Pro-

fessor Fisher picturesquely calls the "market basket" standard) we must be able to put our case so as to command the confidence and support of the manufacturers, the business men, and especially the workers. No amount of eloquence explaining how the prices of the necessities of life actually vary in close conformity with food prices will satisfy the horny-handed laborer and the equally horny-headed business man with a *food index* represented as showing changes in *cost of living*. Both will rightly demand to be shown and we must be in a position to show them.

The question doubtless is in the minds of many of you: Why not use the cost of living figures for shipbuilding centers? There are four reasons why I am not willing to use these indexes to show changes in the cost of living either for the whole country or for geographical districts:

1. The shipbuilding centers are too few in number and they are quite abnormal industrial communities.

2. The haste with which we were obliged to make the cost-of-living survey in those centers did not permit us to get retail prices of miscellaneous items of expenditure so as to enable us to compute accurately changes in the cost of this large part of the family budget. Next after food miscellaneous expenses are by far the most important group in the family budget. The cost of miscellaneous items of expenditure was of course obtained in the shipbuilding study, but the retail prices of these items were not obtained. In computing indexes for the different shipbuilding centers, it was assumed that miscellaneous items fluctuated exactly the same on the average as all other items of expense. This assumption gave all the advantages to the workingman during the period of violently ascending prices since 1916, for undoubtedly miscellaneous items have remained much more stable than the average of other items.

3. There was no time to calculate new weights based on the quantities of each article consumed in the average workman's family today, so the old and rather imperfect weights obtained in the 1901 study had to be used. We can and ought to revise these weights, using the facts as to the family consumption which we are finding in the present study. Except for articles of food, the individual items of consumption are not weighted within each group or class, according to their importance in the family budget. In the clothing group, for instance, suits, nightshirts, socks, caps, shoes, neckties, shirts, and handkerchiefs all have equal weight. Quite possibly weighting within the groups will not change the

percentage change in cost of the groups as wholes, but we have no ground for assuming this to be the case. To be sure, all experience has shown that it makes but little difference what methods are used in computing an index number. However, science, common sense, and expediency all require the extension of the weighting of individual items to all groups of the family budget.

4. The lists of articles for which retail prices were obtained in shipbuilding centers are not so satisfactory as it is possible to make them. In the cost-of-living study now in progress, we are getting retail prices for a larger number of articles and, profiting by our experience, we are using greater care to secure identification marks so we can get prices in the future for the identical articles or the nearest thing to them. The retail price schedules for food; men's, women's and children's clothing; fuel and lighting; housing; furniture and house furnishings; and miscellaneous items have all been carefully revised and greatly improved.

As a rule, there is but little difference between a weighted and the so-called unweighted index number. This general rule does not seem to apply to family budget indexes. We know that there are great differences between the weighted and the unweighted food budget, and it seems inevitable that similar differences will be shown for the clothing group and the miscellaneous group when we get weightings for them. In the food group, potatoes, because of their great importance in consumption, exercise a great influence over the food index and the total budget index. Sometimes potatoes carry the whole food index against the current of food prices in general. The preponderance of potatoes and their sudden and enormous price variations in the autumn, and more especially in the spring, make them most unpopular with the makers of cost-of-living index numbers. At a former meeting of this Association, I warned wayfaring statisticians and economists of the deeply deceptive character of the potato. Apparently the potato is merely an innocent and astonishingly prolific and wholesome member of the vegetable kingdom; but statistically it is a ravening wolf masquerading as a humble tuber. It is undoubtedly an invention of the devil for the purpose of making the way of the statistician hard and his life a burden. The malignant power of the potato may yet defeat the benignant plan to stabilize the dollar, for the potato does not submit kindly to the yoke of the index number. The story of the potato is very difficult to record statistically. The enormous seasonal changes in prices are due to the difference between new and old potatoes, which make them in re-

ality entirely different economic commodities. I think a special joint committee of the American Economic Association and the American Statistical Association should be named to study potatoes and determine when a new potato becomes what we may call a tabulatable potato and when an old potato ceases to be a potato at all.

The prices of several other articles of food fluctuate just as capriciously and as violently as potato prices, but these other articles are relatively unimportant so we can ignore them or set down their price vagaries with a calm, unruffled spirit. Nor need our equanimity be disturbed by the wildly varying price of wearing apparel, such as, for instance, women's hats; for although each feminine hat is a distinct and separate economic entity and there are violent seasonal and cyclical variations in the prices, shapes, material, and qualities of hats, yet the total effect of women's hats on the cost-of-living index number and consequently on the "stabilized dollar" is negligible, compared to the devastating effect of the potent potato.

For the purposes of a cost-of-living index number to be used in making wage adjustments and as the standard of value or "stabilized dollar," it is necessary to get more detailed information about the quantities of articles consumed and their retail prices than have been obtained in former studies. These surveys in shipbuilding centers were made hurriedly to meet a war emergency. Consequently short cuts were used and the large assumption regarding miscellaneous prices was made to save an enormous amount of field work and office tabulations which would otherwise have been necessary.

The apportionment of family expenditures in the New York Shipbuilding District and the percentage changes in the several classes of expenditure since December, 1914, are as follows:

Group	Average Expenditures per Family	Proportion of Total Expen's	Percentage Increase over Dec. 1914			
			Dec. 1915	Dec. 1916	Dec. 1917	Oct.-Nov. 1918
Food	$607.02	45.01	1.34	16.26	55.28	77.7
Clothing	200.07	14.84	4.82	22.31	54.21	129.74
Housing	174.14	12.91	[1] .10	[1] .05	2.63	5.89
Fuel and Light	62.21	4.61	[1] .06	10.98	19.92	37.26
Furniture, etc.	43.58	3.23	8.43	27.60	56.47	122.91
Miscellaneous	261.62	19.40	1.97	14.91	44.68	75.28
Total	$1,348.64	100.00	1.97	14.91	44.68	75.28

[1] Decrease.

A brief examination reveals why the increase in all items conforms so closely with the increase in the food budget. First, food is much the most important single item of expense. Secondly, its preponderating influence is increased by assuming that changes in miscellaneous items always equal the average of all other articles. Thirdly, it so happened that changes in the prices of clothing and of housing when averaged together show an increase approximately the same as the increase in the price of food. These two groups constitute approximately 30 per cent of the total budget. The four groups mentioned (food, clothing, housing, and miscellaneous) make up more than 90 per cent of the entire budget. It would certainly be quite unwarranted to assume that price changes are always going to take place in such a way that the changes in prices of clothing and housing will always average approximately the same as changes in food prices. It is even more unwarranted to assume that miscellaneous items change in like manner and degree with the prices of the other items of the budget. If, for example, we found, as is quite likely the case, that miscellaneous items weighted according to importance in consumption increased only 10 per cent, then the cost-of-living index for October, 1918, for New York, would be only about 161 per cent instead of 175 per cent—a difference that is by no means negligible.

The showing for Seattle, Washington, is as follows:

Group	Average Expenditures per family	Per cent	Percentage Increase over Dec., 1914			
			Dec. 1915	Dec. 1916	Aug. 1917	June 1917
Food	$576.38	36.75	[1]2.75	8.46	38.65	51.87
Clothing	240.70	15.34	1.19	11.31	36.44	[1]62.26
Housing	211.51	13.48	[1]2.42	[1]5.41	[1]0.55	16.70
Fuel and Light	73.19	4.66	[1]0.19	2.93	23.85	45.96
Furniture, etc.	73.87	4.71	8.52	27.43	52.29	82.67
Miscellaneous	393.45	25.08	[1]1.02	7.40	31.08	49.24
Total	$1,569.10	100.00	[1]1.02	7.40	31.08	49.24

[1] Decrease.

The proportion of expenditure for the miscellaneous group is much larger in Seattle than in New York, and for food much lower. Clothing and housing are approximately the same for both cities. Again these four groups make up more than 90 per cent and miscellaneous items alone constitute more than one fourth of the entire budget. If investigation proved that the increase

in the cost of miscellaneous items of expenditure in June, 1918, over December, 1914, was actually only 10 per cent instead of 49.24 as assumed, then the index number for the entire family budget would be only 139.46 per cent instead of 149.24, a difference of 9.78 points or more than 6½ per cent less than the index compiled by the Bureau of Labor Statistics for the use of the Labor Adjustment Board. It may be that our present studies will not reveal the wide discrepancies I have assumed for illustration, but we cannot expect either employers or employees to accept our index number unless it reflects the actual price changes weighted according to importance in consumption of all the principal items of family consumption.

The wide variation in the average family budgets of the shipyard workers in New York and in Seattle emphasizes the absolute necessity for establishing standard budgets for typical workmen's families composed of husband, wife, and three children under fifteen years of age. These standard budgets are needed most urgently by the Wage Adjustment Board for the purpose of fixing wages so as to insure a minimum of decency and health to the workers. After all these years of investigation and statistical toil in the cost-of-living field, we don't know clearly the difference between the higher costs of living and the costs of higher living. By examining the schedules carefully we could tell approximately whether the Seattle family expending $576.38 per annum for food is sufficiently well fed, but we could scarcely tell whether the New York family spending $607.02 per annum for food is any better fed. Except for food, scarcely any attempts have been made to determine what are proper standards of decency, health, and comfort. We cannot, to save our lives, tell whether the Seattle family with an income of $1569.10 is better or worse off than the New York family with $1348.64 income. We do know that most workman's families in the United States spend all their income. Does that mean that American families are extravagant or does it mean that they are living at or below the margin of decency and health?

Standard budgets for the different geographical sections of the country giving due recognition to climatic differences, personal and family idiosyncracies and commonly accepted differences in social requirements, are indispensable if we are to measure with accuracy changes in the cost of living. We can take the annual budgets as we find them in different communities and measure

changes in the costs of these budgets from time to time. But changes in the cost of an actual budget may differ quite markedly from changes in the cost of a sufficient budget properly balanced.

It is a task of enormous difficulty and of endless and infinite detail to collect the retail prices of the more important articles of family consumption, weight them according to their importance in consumption as determined by our budget studies, and compute therefrom a refined index number of cost of living. The task is not, however, impossible as I at one time feared. In fact agents of my Bureau have already collected the prices necessary for the computation of the refined cost-of-living index number for Washington and Baltimore, and the work is well under way in half a dozen other cities. All that is needed now is about a thousand competent clerks to carry through the copying, sorting, tabulation, and computation of the budget items and retail prices so as to make the index number so long yearned for. I here for the first time publicly proclaim that not only is an index number of the cost of living a theoretical possibility but it is a practical fact in process of coming into being as rapidly as the Bureau of Labor Statistics can push the work along.

Once such an index number has been achieved it will be necessary to bring it up to date at least every six months, preferably, I think, every three months. It will cost money to do this. The studies in shipbuilding centers and the present countrywide study were undertaken by direct authorization of President Wilson, and were paid for out of his special fund. If the results of these studies are to be fully realized, Congress must be awakened to the significance and value of this information. Much larger appropriations to the Bureau of Labor Statistics will be necessary to enable the retail prices to be collected and tabulated rapidly enough and frequently enough for the purposes of a usable index number of the cost of living.

A word of explanation of the methods used in getting the family budgets and retail prices seems necessary. The present study includes large, medium sized, and small industrial towns located in the different geographical sections. All but three states are represented. Agents of the Bureau of Labor Statistics visit the housewives and obtain from them at a single interview, if possible, an estimate of the quantities of the different articles consumed by their families during the past year and the cost of each item. This seems absurd. Not one housewife in 10,000 can tell

you off-hand the quantity and cost of beef, pork, potatoes, beans, cabbage, hats, shoes, shirts, shirtwaists, dresses, suits, chiffoniers, coal, kerosene, car rides, movie tickets, newspapers, etc., which her family has consumed for an entire year. I felt very sceptical of this method of getting at the cost of living. I tested it out in the District of Columbia study by having more than a hundred families representing the different income groups keep itemized accounts of all expenses for a month. This gave us an excellent check on the expenditures for food, but not for other classes of expenditures. The two methods tallied very closely on food consumption as to kinds, quantities, and costs. This convinced me that it is possible to get accurate estimates of itemized family expenses by the interview method. The family expense-account method may perhaps be better but it is of course utterly impossible because of the time required. It is also very difficult to get a proper representation of the different income groups.

The expenditures are estimates, but they are, I am convinced, very accurate estimates. The housewife knows what she spent for food today and this week. With the help of an experienced agent, armed with the Bureau of Labor Statistics family budget schedule containing 474 items, the housewife does estimate very accurately what she has bought and what she has paid. All discrepancies are noted by the agent and must be explained or corrected. The total family income from all sources is ascertained. If the income seems too large or too small for the kind of work performed by the wage earners, it is checked with pay envelopes or the wage rates paid by the shops. I was asked by the arbitrator in a wage hearing if the housewives did not pad their expenses so as to show a higher cost of living than really exists, for the purpose of helping their husbands to get a larger increase in wages. My reply was that it is impossible for the housewife to fool our experienced agents. Our agents have many checks on the accuracy of the housewife. A padded budget of expenditures would be discovered at once because of the discrepancies between income and outgo. If income is padded, that is checked by the methods referred to above. A few schedules have been rejected because of evident errors. Above all, American housewives almost without exception are not only honest and truthful, but immensely interested in going over their expenditures for the purpose of finding out where and how the money went.

A large number of families are keeping daily expense accounts

for the Bureau. These expense records will give us very useful checks on the family budgets for a year obtained by interview. The Domestic Science departments in some of our universities and colleges are giving invaluable assistance in obtaining these daily expense records. Some of these accounts will be kept for two periods of five weeks each at different seasons of the year. Some we hope to keep running throughout the year with the assistance of the Domestic Science students. These daily expense accounts should give us very valuable facts which will enable us to check and perhaps modify our family budgets.

Granted that budgets obtained by interview are estimates, there is no other way under heaven of getting at the cost of living with any possibility of accuracy. The English have just completed a survey of cost of living by the questionnaire method. Schedules were handed out to housewives by the agents in charge of the employment offices. These were filled out by the housewives without any supervision or assistance whatsoever. Needless to say, the information is not detailed enough to enable a weighted budget to be made up, without which a cost-of-living index number is utterly impossible. For myself I have no faith in the questionnaire method of studying cost of living. I would not bother to tabulate the misinformation gathered in that way.

Quite as important as the obtaining of family budgets is the obtaining of accurate retail prices of a sufficient number of the more important standard articles bought by the families studied to represent fairly the kind of articles consumed by these families, so that changes in prices of these representative articles may be translated readily and with approximate accuracy into changes in family expenditure. The articles priced must be accurately described so that in future prices may be obtained of the same article or some other article approximately identical. I am confident that both the family budgets and the retail prices being secured by agents of the Bureau of Labor Statistics are accurate and thoroughly dependable.

THE POSSIBILITY OF COMPILING AN INDEX OF THE COST OF LIVING—DISCUSSION

Irving Fisher.—I have here two price charts which may be of interest to this audience. On one I have plotted the money in circulation and in banks in the country, and the Index Number of the Bureau of Labor Statistics, and also, for comparison, two special index numbers made for me by Mr. Charles A. Bell of the Statistics Bureau. These last are based on a smaller number of commodities, chosen for their greater responsiveness to those forces which cause price changes. One is for the country at large and is based on approximately 200 commodities; the other is for New York City and is based on 70 commodities.

As would be expected, these two index numbers show greater variations. Especially do they rise sooner and higher at the time of the war than the regular U. S. index number. There is also, apparently, a closer correspondence between them and the currency curve.

The curve for each of these special index numbers is forked at the right, the upper line showing the price level or average excluding the articles on which price fixing had been practised; the lower and more sluggish line showing the effect of government regulation. The effect has, however, been very slight.

Turning to the second chart, we see the price curves during eight important wars. The first, that for the Napoleonic War, which is especially interesting as most nearly comparable to the recent Great War, shows a decline before the coming of peace. That for the Civil War shows a decline immediately after peace came. But the figures are for prices measured in paper. Translated into terms of gold, prices showed no such high rise during the war, and no real fall after, rather, indeed, a rise, though with variations.

History, however, is of little use to us in making predictions today. There are many factors to which history gives us no clue. Rather, a close analysis of the relative strength of the various forces, international to a large extent, which will actually control prices is the only method we have of forming any opinion on future price movements.

Simon Litman.—In his discussion of Professor Royal Meeker's paper, Professor Irving Fisher placed before us a chart showing the upward movement of two curves, one representing the amount of currency in circulation and the other the general level of commodity prices, the inference being that the rise of the latter is conditioned by the first. I can not but think that very little is to be gained by either

the drawing or the study of such charts. It seems to me that it is idle to conduct searching inquiries into the relation between currency and prices without considering at the same time credit instruments which play a much more important rôle than money in modern business transactions. It is irrelevant whether the lag of the rise in prices is two months behind the rise in the amount of currency, as Professor Fisher was able to establish for the United States, or whether it is three months, as Professor Nicholson, by using quarterly periods, found for England. Very little light is thrown, by ascertaining these facts, on the fundamental question as to what caused the rise in prices. A chart like the one presented by Professor Fisher is misleading unless it is prefaced by a definite statement of its limitations. It is misleading because it has all the appearance of graphically presenting the reason for the advance in prices while in reality it may do nothing else than show the existence of two concurrent phenomena, the causes for which must be sought elsewhere.

It is hardly necessary for me to discuss here what have been some of the causes, besides inflation, which have produced the upward trend of commodity prices: the withdrawal of a large amount of capital and labor from productive occupations, the increased demand for many commodities, the destruction of goods in the war zones and on the seas due to the sinking of cargo laden ships by submarines and mines. It is true that these causes do not lend themselves to plotting on charts, but this should not prevent one from keeping them constantly in mind when one deals with the problem of war prices.

Professor Royal Meeker's painstaking construction of the Index of the Cost of Living is somewhat impaired by the fact that the laborer's provision basket does not contain at any given time all the commodities which Professor Meeker uses in making his computations. Unless one takes account of substitution and of elimination which occur with the advance in prices one does not gain a correct view of the situation. The laborer and his family may have been consumers of eggs, butter, and milk when certain prices for these products prevailed; but with rising prices they disappear from the workingman's table, other less expensive goods taking their place. The difficulties of keeping track of such changes are undoubtedly great, but for the sake of accuracy it is worth while to point them out; the effect of these changes upon the laborer's diet and upon his ability to make both ends meet is obvious.

SECURING THE INITIATIVE OF THE WORKMAN

Industrial and National Organic Unity a Necessity for Developing Individual Initiative

By Robert B. Wolf, M.E.

The Emergency Fleet Corporation

The present labor unrest is the natural result of diverting the creative instinct of the workmen from *con*structive into *de*structive channels. The repressive form of most of our industrial organizations is responsible for this state of affairs.

The remedy lies in making our industrial organizations democratic so that the workmen will have a voice in the determination of working conditions.

Until we have changed the autocratic character of our industries (which really dominate the political situation), it will be impossible to have a democratic society.

By a democratic society I mean that form of social structure which encourages and aids the growth of the creative spirit in man, expressing itself through the trades and professions and the organized industries.

This I do not believe can be accomplished until the executive, legislative, and judicial functions of the government coöperate with the trades and professional associations and industrial organizations to give greater opportunity for the free expression of individuality. When this is done we shall have an organization of society based upon respect for the individual, which is the only true democracy.

Not until the workman, however, is conscious of his own part in the whole production process will he become interested in his work and begin to think and to plan how to improve the operating conditions. Improvement implies change, but no change can come except by expression of creative effort—either generic or individual. *Generic* change is the kind exhibited by nature in all of her infinite activities, and, as modern science has conclusively demonstrated, operates always according to exact predetermined law.

Modern industry, however, while it must, of course, conform to the natural laws inherent in the raw materials, is primarily concerned with *individual* creative effort. Industry is artificial and has to do with conditions which do not occur spontaneously in nature; in other words, the creative power which sustains our civili-

zation and prevents it from reverting back to nature resides in the originating, selecting, and adapting faculty of the human intellect, but—and here is the crux of the whole matter—this faculty of mental creativeness is *not* confined to a few individuals who are in charge of our industries. It is common to all mankind. Proof of this statement lies in the fact that the majority of our industrial leaders have risen from the ranks.

What right have we then to expect a high development of productive (creative) effort when we limit the intelligent handling of materials and forces to the few who autocratically claim it as their right to dominate the wills of others, especially when their contact with the actual work, because of the increasing size of our industrial organizations, is becoming constantly more remote? Of course, we must have leaders; otherwise there can be no organization, but leading is vastly different from driving. "Teach, don't boss" is a sign we see posted in industrial plants quite frequently in these days, and it is one of the healthy "signs" of the times.

When our industrial leaders become our industrial teachers, then will "the will of man" be a much greater factor in the universal creative plan.

Just so long as the majority of workmen are using their brains merely to direct their bodies and are doing work which requires little or no thought, just so long shall we have industrial unrest. Man is not an animal, but a free, self-determining *mental* centre of consciousness who has the power to work *with* or *against* the natural law of evolution; that is, *con*structively or *de*structively. If he had not this power, he could not become conscious of the law, for he must know its negative as well as its positive aspect. He can only learn the negative, however, by a process of trial and error. Naturally then, without an opportunity of first-hand experimentation in industries, there can be no real intelligent industrial growth. The autocratic industrial methods of Germany, which caused her notorious lack of inventive spirit, have taught us this. We must not fail to profit by the lesson.

The short-sighted employer may prevent his employees from using their brains at their work, and, because of this, hold their compensation down to a low level. There is no advantage in so doing, however, for the result of the attempt to repress individual initiative is simply to deflect creative power into destructive channels.

This autocratic domination of the wills of the workmen, by

preventing free self-expression, is the cause of practically all the destructive forces, exhibiting themselves in certain phases of Bolsheviki and I. W. W. movements. The creative process in the individual cannot be suppressed—it can only be deflected (perverted) into useless or, worse still, destructive channels.

A comparison between the human being and a steampower plant illustrates what I mean. The internal energy of the power plant comes from properly bringing together fuel, air, and water. The energies released from these elements result in steam pressure, which can be conducted to the cylinders of the engine. If, however, the steam pipe leading to the engine becomes plugged, and we continue to feed fuel into the boilers, we must allow the steam to escape and dissipate itself into the surrounding atmosphere. The word dissipate is significant when applied to men. If this relief be not provided, the accumulated pressure will build up and the whole plant will explode and destroy itself, and may destroy, at the same time, many other devices that are useful to man.

The employer who closes the avenues to constructive work, by preventing the employee from consciously expressing his individuality in his day's work, is no more intelligent than the engineer who shuts off the steam valve leading to the engine and sits on the safety valve of the boiler.

Natural laws must always operate, and if disobeyed, destruction is sure to follow. Providence gave to man the power to work *with* the natural law or *against* it, and for this reason the exact operation of this law had to be predetermined. The great law of evolution is for man's benefit, for nature serves him in proportion to his knowledge and intelligent use of her laws. He could *not* increase his knowledge of the law, however, if it changed from day to day.

The higher creative power in man is a mental process, and lies in his intelligent adaptation of means to ends. He cannot create matter or force, but once he has learned how nature works, by study and conscious observation of the laws underlying natural phenomena, he can tell what must be done in order to create combinations of material elements that do not occur spontaneously. This is what the horticulturist does. He studies nature's laws *in action* and then works *with* them. For instance, the wonderful juicy peach of today was literally created by the specializing faculty of the will of man. An uncultivated orchard will revert, however, to its original wild state when not attended by man. We are

beginning to realize through the aid of modern science the truth of the world-old proverb that "nature unaided fails."

I will give a different illustration from the wood-pulp industry. A number of years ago the cooks who handled the digesters in which the wood chips are disintegrated discovered the natural law that, if the strength of the cooking acid was increased, we could cook in a shorter time. Because of the careful records kept by our organization, this information, which was available to the acid makers, enabled them to recall the fact that we were able to make stronger acid in winter than we could in summer. From this we saw that, if we could create by artificial means the same low temperatures in our absorbing systems in summer that we had in winter, we should have a uniformly strong acid all the year around.

As natural laws never change, we, of course, could prophesy what would happen if these temperatures were reduced, but, what is more important, we could calculate the size of the refrigerating plant needed to exactly reproduce the winter conditions during the summer months.

Because of this accumulated knowledge of natural law, we installed a refrigerating plant which cost us nearly $60,000, and paid for it out of the increased earnings in about three months.

While I could give many other illustrations of a similar nature, this one illustrates what is meant by the creative power of the intellect, and how, while man does not create material substance, he does create combinations of material substances which could not exist without the aid of his powers of observation and selection.

We cannot logically accept the point of view that man's only mission in life is to reproduce his kind; so, obviously, his creative power must have another outlet. What other outlet can there be than that of mental creativeness, illustrated above?

The more progressive manufacturers are realizing this, as indicated by a recent utterance at the Chamber of Commerce meeting at Atlantic City by one of the largest employers of labor in the country. What he said was:

> "I believe that that man renders the greatest social service who so coöperates in the organization of industry as to afford to the largest number of men the greatest opportunity for self-development and the enjoyment by every man of those benefits which his own work adds to the wealth of civilization."

This quotation indicates clearly that industries are beginning to develop along truly educational lines, which, of course, means fur-

nishing men throughout the entire production division with progress records of their own individual operations, as well as educating them to a knowledge of the relationship of their work to the finished product. This is being done in a number of manufacturing plants with great success, and, furthermore, it is being done in many instances in coöperation with organized labor. Naturally, this insures a democratic handling of the situation, for the workmen have a chance, through their unions, to have a voice in the determination of the manufacturing standards. The great problem in industry today is how these organizations can be brought to realize that their members will only attain industrial freedom and material prosperity when they direct their main energies to the creation of wealth instead of to its distribution. Capital is simply a medium through which society can give material compensation to the individual for services rendered. It is an effect, not a cause.

Ex-President Taft, in an editorial in the Philadelphia *Public Ledger*, recently pointed out that: "Organization of labor has become a recognized institution in all the civilized countries of the world. It has come to stay; it is full of usefulness, and is necessary to the laborer."

This being the case, is not the employer who opposes the movement extremely short-sighted?

A manufacturing industrial unit divides naturally into three main divisions—supply, production, and administration. For convenience in presenting the subject, I have symbolized these divisions on the accompanying diagrams, so it will not be necessary to incorporate in the text of this paper a detailed description of the diagrams, which are fully explanatory in themselves. It will be noted that the main function of the ***administration*** division is to provide an environment in which the greatest possible number of men in the *production*[1] division have the very best opportunity to express their individual creative power in constructive work. And it is the main function of the ***supply*** division to provide a sufficient quantity of the most suitable materials in order that the highest type of organized creative power can be developed.

I am using these illustrations from actual industry to point out

[1] Broadly speaking of course, "production" covers all the activities of the organization. For the purpose of this analysis however it is used in its restricted sense as applying to the immediate conversion of raw materials into the finished product.

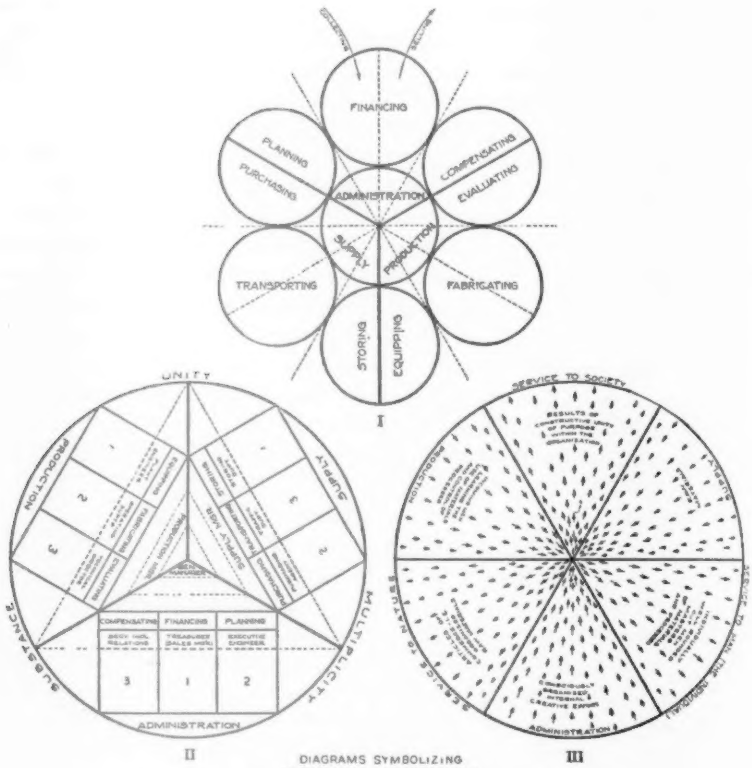
what seems to me is an obvious fact; namely, that as the unit of which the individual plant is composed is the man, and the unit of which the large corporation is composed is the individual plant or department, so, in the natural course of evolution, the corporations must unite into industrial associations, which reflect their particular kind of creative activity in society—society being represented in its organized aspect as government.

There is this fundamental difference between the industrial plant and government; namely, that, while the administrative division of the industrial plant organized material substances by consciously bringing together raw materials and men, the function of the administrative (executive) branch of the government is to organize humanity by consciously bringing men into contact with industrial organizations. The substance of which society is composed is man. Men, however, in order to express their particular kind of creativeness, naturally associate themselves into varied types of industries, so that the industrial aspect of our governmental organization should be represented by the legislative or planning function.

Believing that the principles underlying industrial organization can be applied to the organization of political and social structure, I am taking the liberty of comparing the functions of organized industry with what it seems to me can become the functions of organized society. In doing this I realize that I am trespassing upon economic ground, which, as an engineer and a manufacturer, I should perhaps know enough to keep off of. I feel, however, that the principles of individuality are universal, and if we are to organize society to permit the exercise of freedom, it must be done according to laws which are fundamental and capable of demonstration in the world of material things. When we get into the mental realms, we must, of course, resort to analogy in order to clarify our conceptions and make them practical.

The first set of diagrams illustrates the principles of industrial organization, and, as they are fully described on the cuts, it will be unnecessary to explain them further.

The second set of diagrams, which are also fully described, suggest a way of applying the same principles upon which the individuality of the industrial organization is built to the individuality of the government itself. The titles that have been applied to these various headings are, of course, merely suggestive, and have been chosen because they describe the kind of function which it



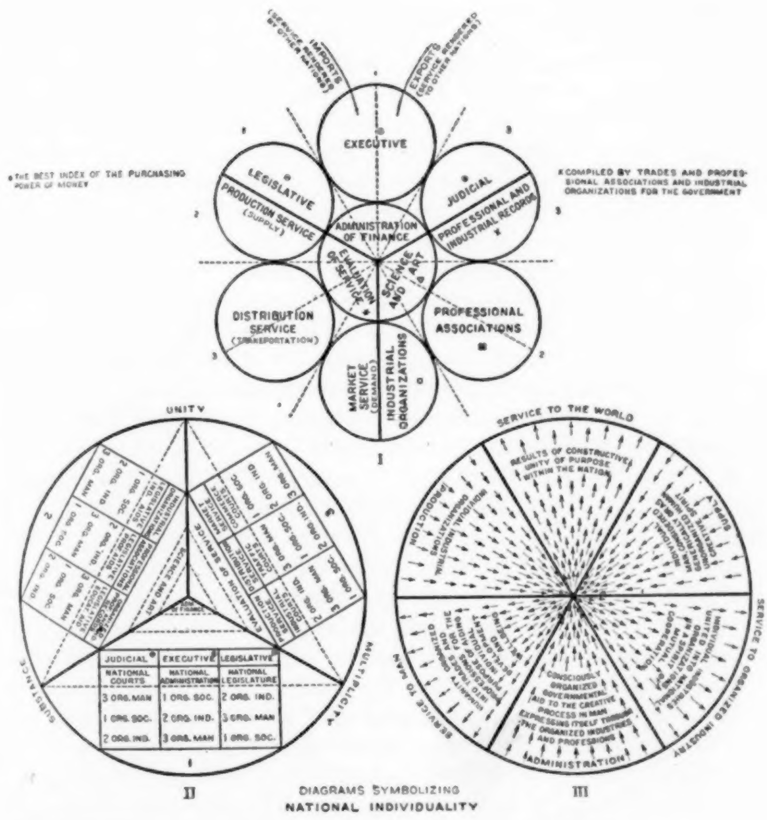
DIAGRAMS SYMBOLIZING INDUSTRIAL INDIVIDUALITY

Division		General Functions			
(1) Administration	1	Financing	General Accounts	Sales	Collections
"	2	Planning	Budgets	Plans & Estimates	Ways & Means
"	3	Compensating	Employment	Service	Compensation
(2) Production	1	Equipping	Constr. & Maintenance of Buildings.	Constr. & Maintenance of Equipment.	Constr. & Maintenance of Power Plants.
"	2	Fabricating	Preparation of Raw Materials.	Fabrication of Prepared Materials.	Finishing of Product.
"	3	Evaluating	Progress Records	Research and Investigation	Planning for Improved Equipment
(3) Supply	1	Storing	Crude Materials	Sundry Supplies	Apparatus
"	2	Purchasing	" "	" "	"
"	3	Transporting	" "	" "	"

(1) These headings naturally can be modified to meet local conditions and different types of industries. The purpose is to illustrate principles only.

(2) In a small plant, for sake of economy, several functions can be combined under one man

(3) In the central organization of a large corporation made up of a number of plants the activities are largely functional. In the individual plant they are administrative.



DIAGRAMS SYMBOLIZING
NATIONAL INDIVIDUALITY

● JUDICIAL – FOR DETERMINATION OF JUST COMPENSATION FOR SERVICES THAT HAVE BEEN RENDERED.

⊖ LEGISLATIVE – FOR ESTIMATION OF FUTURE SERVICE RENDERING POWER OF EXISTING OR PROJECTED, ASSOCIATED ENTERPRISE.

⊕ EXECUTIVE – FOR EXECUTION OF PROPER COMPENSATION FOR PAST SERVICES RENDERED, AND ALSO CREDIT EXTENSION (CAPITALIZATION) BASED UPON ESTIMATED FUTURE SERVICE CAPACITY.

■ PROFESSIONAL ASSOCIATIONS IS USED IN THE BROAD SENSE, TO INCLUDE TRADES UNIONS AS WELL AS PROFESSIONS. THEY ARE ORGANIZED HUMAN MOTIVES AND FORM THE CONNECTING LINK BETWEEN EDUCATION, (SCIENCE) AND THE INDUSTRIAL ARTS (APPLIED SCIENCES).

□ INDUSTRIAL ORGANIZATIONS ARE PRIMARILY FOR THE PURPOSE OF PROVIDING FACILITIES FOR THE INTELLIGENT PRACTICE OF THE SCIENCES, AND THEREFORE THE DEVELOPMENT OF MAN.

△ SCIENCE IS ORGANIZED FACTS, (PROFESSIONAL AND INDUSTRIAL RECORDS) AND AN ART THE PRACTICE OF A SCIENCE.

NOTE: ON EACH SUBDIVISION (DIAGRAM II) SHOULD BE "REPRESENTATIVES OF" ORG. SOC., – ORG. IND., – ORG. MAN.

seems to me should be performed by the three main divisions of government.

It will be noted that under each of these headings I have suggested that representatives of the three aspects of society be included. *Man*, of course, represents the substance of which society is composed; *industry* (used in its larger sense) symbolizes the organization of men under a multiplicity of different aspects of creative activity, and *government* represents the organization of society to produce unity of action within the nation.

While all three of these aspects of society are included in each of the headings, the dominant note in each subdivision is indicated by the one which appears at the top. As an aid to show the relationships, I have numbered society 1, industry 2, and man 3.

Is it not true that before we can fully secure the initiative of the workman—I use the word "workman" in its larger sense to include all of humanity—we must conceive of the judicial function of the government as primarily adjudging merit instead of demerit? I believe its main function should be the determination of just reward for services rendered, for if men were working in an environment which gave full opportunity for individual self-expression, there would be very little destructiveness to punish.

In order that the courts can function in this way, however, the legislative bodies must change their repressive character by making laws for aiding industrial development rather than laws which hinder. When the industries cease exploiting humanity and recognize that the basic reason for their existence is to provide the best possible environment for the development of mankind, then it will be safe to make the organization of industry legitimate.

Of course, this would not have been a safe thing to do until humanity had been organized into the trades and professions. What has occurred in Germany is proof of this, for in that unfortunate country autocracy captured industry and dominated it before man himself had learned to organize for his own protection. There is no reason for believing that the results would have been otherwise in this country if the Sherman anti-trust law had not prevented the industrial combinations from forming first. May I suggest that this is perhaps the reason for this law, which has now become inoperative by the action of the government itself when it became necessary to marshall the creative forces of the nation in the great war emergency? To marshall these forces the government authorities did two things:

1. They called upon the practical men, the representatives of the workmen, the engineers and scientists to tell them *what* to do and *how* to do it. They asked those men to build up organizations to direct the industrial operations of the country. Gradually this group of men, whose training had made them masters of the material forces, began to accumulate information which enabled them to know what the nation's resources actually were. They encouraged the producers to organize into associations to aid them in making a complete survey of the field of resources and requirements, and in this way were able to determine which organizations had the greatest capacity to render service. The legislative branch of the government was acting under the direction of these bureaus of industrial leaders for the simple reason that it could not act intelligently without them.

How can we expect to get intelligent legislation in peace times without this same coöperation between nationally organized industry and the national legislative body?

2. The second thing the government did was to administer the finances of the country in such a way that credit was extended to those who were estimated to have the greatest capacity to render service. Without this executive power to administer credit where needed, little could be accomplished for it had to be administered for the good of the whole country. Why then isn't this a necessary peace-time executive function also?

With the government administration of credit for the benefit of society, the interest charges would naturally be made as light as possible in order to reduce the burden, and thereby stimulate creative enterprise.

With legislative coöperation to aid organized industry, and judicial assistance to determine just compensation for services that have been rendered by individuals, the executive branch of the government could administer credit for the benefit of all. Credit capital did not exist until we had associated enterprise, and its function is to form a medium through which society can measure its indebtedness to the individual for services rendered. It is one of the most subtle forces we have at our command for it transmits mental impulses and therefore measures mental relationships primarily. While we refer it to gold in order to give it a material basing, as it were, nevertheless it is so fluidistic and reflective of human creative spirit that it can only be expressed in symbols such, for instance, as an entry in ledger or an engraved certificate of indebtedness.

I wish to state right here that I am not in favor of governmental domination by any particular political party. My personal feeling is that what has been advocated by a certain type of political socialism will not, in any way, lead us out of our difficulties. I am an individualist, and believe in the fullest possible opportunity for individual self-expression, but I feel absolutely certain that, as the individuality of the industrial organization must be developed in order to give full opportunity for the development of the individual workman, so must the individuality of the nation be developed if we are to give full opportunity for the development of the individual industrial organizations and the individuals of which those industrial organizations are composed.

The law is always the same; namely, that any individual center of consciousness expressing life, in order to express life in its fullness, must be organized so that it is conscious of its *inner* organic unity and of its *outer* environment; that is, what is going on within the organism itself and of the external effect of its actions.

The three aspects of individuality, as indicated by the diagrams, consist of, first, *substance*, then substance organized under a *multiplicity* of individualized activities, which perform the special functions to enable the whole to become finally a conscious *unity* for expressing itself in constructive service for advancing the welfare of the world.

Surely an association of nations based upon this conception of rendering service need not think of a type of internationalism which does away with national characteristics. Those groups which logically and naturally should work together must form themselves into individual societies or governments; otherwise, the progress of the human race will not be individual but generic. The individuality of the nation must be just as carefully and conscientiously developed as the individuality of the plant in the larger corporations, or, as the individuality of the department within the plant or the man within a department. When each nation realizes that its growth in creative power depends upon its coöperation with other nations for the welfare of the whole world, the attitude of exploitation which has dominated national life in the past will disappear, for it will be soon that the greater the service rendered by the nations, the greater the reward, and that no true growth can come to any individual organism that does not recognize this principle, whether the organism be a man, an industry, a state, or a nation.

In concluding this paper, I wish to state that I am offering these suggestions for developing national consciousness, fully realizing that the solution is a problem of gradual evolution and can only be solved successfully when many minds are at work upon it, each completing and correcting one another. It is the world-old question of the relationship of the individual life to the universal life, which, to my mind, will not be solved until we understand the principles underlying individuality, that is, how the greater life can include the lesser without hindering, but aiding its development.

The problem is not impossible of solution, however, for man is the product of the whole evolutionary movement and therefore must contain the essence of it within himself. He is destined to become conscious of his own part in the great plan of cosmic evolution; for it is only as he *consciously* reflects the universal life that he can understand its meaning.

A vitalized form of organization and order must therefore take the place of the present unorganized state of society if man is to develop to the full his latent creative powers.

Note.—Other articles by Mr. Wolf, describing the details of his organization may be found as follows:

"Making Men Like Their Jobs," *System*, Jan. and Feb., 1919.

"Non-Financial Incentives," Amer. Society of Mechanical Engineers, N. Y. City.

"The Creative Workman," Technical Ass'n of the Pulp and Paper Industry, 131 East 23d St., New York City.

"Individuality in Industry," "Discussion on Beating Paper Stock," and "Control and Consent," in Bulletins of the "Taylor Society," Aug., 1915, Oct., 1916, and Mar., 1917, "Boxleigh," Chestnut Hill, Pa.

A LEGAL DISMISSAL WAGE

By Edward Alsworth Ross
University of Wisconsin

The old Russian Government—which was a conspiracy for helping the great capitalists and landowners to hold down and exploit the producing mass, though, to be sure, these magnates were often enough sick of the corruption and wickedness of the bureaucracy that safeguarded their economic interests—withheld from Russian workingmen the right to strike by requiring them to give their employer a certain number of days' notice before quitting his employ. In order to appear to "tote fair" between labor and capital, the old régime offset this by a law requiring the Russian employer to pay his dismissed employee for two weeks beyond the term of employment.

After the revolution there was an endeavor to enforce this law and to give the dismissed workman a right to a month's wages instead of a fortnight's wages. In a number of industries the month of leeway was established by joint agreement. In the typographic industry masters and men agreed to a three months' minimum term of employment. When I was at Baku the hundred-odd oil firms were concluding an agreement with their 70,000 employees which stipulated, among other things, that on dismissal an employee should receive a month's pay for every year he had been in the service of the firm. The employers made no protest on this point for it simply made general a practice which long had been followed by the best oil companies.

In some cases the demands went pretty far. A large American manufacturing concern near Moscow was asked by its men to pay three months' dismissal wages for every year of service. On the break-up of the office force of a certain American life insurance company with headquarters in Petrograd the men put in a claim for six months' pay all around.

I do not know how the dismissal wage idea has fared under the new industrial order in Russia and I have little information as to its actual working during the troublous time in 1917 before the old order was broken up. But I believe that it rests on a sound principle and deserves to be seriously considered as a means of stabilizing industrial relations in this country.

In a mature and humane civilization great importance is at-

tached to the economic security of the individual. As the civil service develops, the public employee is protected in various ways against abrupt and undeserved dismissal. In universities it is customary to notify the instructor some time in advance of the termination of his employment. The professor is usually given a year's notice or else his salary is continued for at least a half year after his services are dispensed with. School boards, hospitals, churches, and non-gainful organizations generally, feel that it is indecent to cut off a faithful servant without giving him a reasonable time to look around for another place. Even from private employers professional men are usually able to secure an agreement not to end relations without a month or more of notice.

On the other hand, the practice of American industrial employers is really amazing in its lack of consideration for the worker found superfluous. No doubt many firms take a pride in building up and maintaining a stable labor force and give serious attention to the plight of the man they have to drop. But the average employer seems to give himself not the slightest concern as to what is to become of the worker let out through no fault of his own. I have heard of a firm long aware of the necessity of curtailment waiting till half an hour before the evening whistle blew to post a notice throwing hundreds of men out of a job for an indefinite time.

Since Americans are not generally inhumane, the barbarous "firing" policy so characteristic of our industries can be accounted for only as a revival from the time of the small concern when the competent workman let out could walk around the corner and get a job just as good. That such is not the case today may be learned simply by interviewing a number of workingmen as to what loss of job has meant to them. What tales of tramping the streets looking for work, of rushing hither and thither on a rumor that this firm or that is taking on men, of returning night after night worn out and discouraged to an anxious family, of the sharp cutting down of household expenses, the begging of credit from butcher and grocer, the borrowing of small sums from one's cronies, the shattering of the hopeful plans for the children! Here are real tragedies, hundreds, nay thousands, of them a year in our larger centers, yet the general public goes its way quite unconscious. No wonder among wage earners the bitter saying is rife: "A workingman is a fool to have a wife and kids."

What of the far greater number who are employed con-

tinuously but who are always worrying lest they lose their jobs without warning? From conversation with wage earners one gathers that fear of finding a blue slip in the pay envelope really poisons life for multitudes. So long as many employing concerns move in their present ruthless inscrutable way, not deigning to give their men any advance hint of what will happen to them, there will be resentment and unrest in the ranks of labor, no matter how reasonable the hours and pay.

The tragedy in the situation of the wage earner in the modern industrial organization has been his *insecurity*. Step by step we have lessened this. Mechanics lien laws did away with the risk of losing his pay, postal savings banks with the risk of losing his savings, "safety first" with the risk of preventable industrial accidents, accident compensation with the risk of losing livelihood by injury in his work, pensions with the risk of a destitute old age. The chief insecurity which remains is that of losing one's job. How can we lessen that? Establish for the workman who has been with the employer long enough to establish the presumption that he is of value—say six months—the legal right to receive a fortnight's free wages when he is dismissed without fault on his part. This would give him two weeks to look about and find himself another job. Even if he has nothing saved up and no credit, it would be a month or more before his family came into acute distress. There are few competent men who cannot find a job in a month unless times are hard, and during hard times their recourse will be an altogether different provision, namely, unemployment insurance. Still more important, however, is the consideration that the man who has made good on the job and continues to make good would be relieved of the haunting fear of offhand dismissal. It will not pay his employer to fire him for frivolous reasons, and if business is slack the men let out will be men recently taken on, who have not yet established the right to the dismissal wage.

The dismissal wage should not be looked upon as something held back out of wages which a man will never get unless he is "fired." It should be regarded in the light of the "compensation for disturbance" which some countries allow the evicted tenant who has farmed the land well.

Of course the man who "fires himself" by persistent negligence or misconduct should get no dismissal wage, and since an unscrupulous employer might charge fault when there is none, there will have to be local boards to hear complaints on this score.

The employee who quits of his own free will to take a better job or do something else has no claim. But since such an employee might "soldier" or grow careless just in order to get himself "fired," the employer must have the right to escape paying him a dismissal wage by proving to the local board that he is "soldiering." As a matter of fact no workman could afford to get the reputation among employers of being that kind of man.

Until we have accident, sickness, and old-age insurance, incompetency arising from accident, sickness, or old age, would not, of course, release the employer from the obligation to pay a dismissal wage. The dismissal wage might be combined with a system of unemployment insurance by providing that the unemployment allowance should not begin until the end of the term for which free wages are paid.

The legal dismissal wage should not become involved with strikes and lockouts. Let the rule be that the striker has not relinquished his job any more than the man who has been absent on account of sickness. When the man resumes his job—whether on his terms or on the employer's—he has whatever rights he had when he struck. Only in case he applies for his job and is refused is he entitled to a dismissal wage. If he never applies, he gets nothing.

Let the lockout be looked upon as if it were a temporary stoppage owing to a fire or a dearth of fuel or raw material. When the men are taken on again all is as before. If they stay away they get nothing. If they are refused their old jobs they get the dismissal wage.

If the employer goes bankrupt his men's dismissal wages constitute precisely the same kind of claim on his assets as their back wages.

Since an employer could always avoid dismissing a man by cutting his wages to so low a point that the man would quit of his own accord, the cutting of a competent workman's pay below the "going" wage for the time and place should be construed as dismissal. Likewise when an employee without fault is reduced to a lower position in the works, or is shifted permanently to harder or more onerous work, the workman should have the option of staying on or claiming dismissal pay and leaving.

What of "lay off" when, on account of slack business, the men dismissed are not replaced? Instead of dismissing men, let the employer cut down hours uniformly in the shop, and not until he cuts them below half time shall the men have the option of staying or of taking their dismissal wage and leaving. When a man is

laid off because there is not enough work to keep him busy but the job is supposed to be held open to him, let the dismissal wage payment be strung out through six weeks. If the employer has him back sooner he saves himself something.

A board to decide all such questions should be created in each industrial community. One member should represent employees, another employers, and the third should be named by the State Industrial Commission.

How would the legal dismissal wage affect employers? On all hands it is agreed that the amount of labor turnover in American industries is scandalous. I know of an industry employing 28,000 men which not long ago hired and "fired" at least that many men a year. Fifty-seven Detroit plants last year took on and let out two and a half times as many men as they carried on the pay roll. Few employers have any conception of what they lose by such a turnover. The inquiries of M. W. Alexander show that the hiring of 22,031 unneeded employees in twelve factories involved an economic waste of a million dollars, that is, 3½ per cent of the total wage bill.

The obligation to pay a dismissal wage would give such employers a motive to make their practice conform to that of those thoughtful and humane employers who have brought their annual turnover in some cases down to 30 per cent, with profit to themselves and contentment to their employees. They would find it paid to give attention to human engineering, to instal employment managers who would investigate why an employee is doing badly and would find a way to remove the cause. Before letting a man go with a fortnight's free wages, they would try him out in different positions or departments, in the hope of finding the right place for him, or would even provide him with the instruction which would enable him to make good on the job.

Just as the burden of accident compensation sinks to the minimum in the case of the employer who takes the most pains and goes to the most expense to eliminate accidents from his mill, so the burden of a legal dismissal wage will be least on the employer who picks his men most carefully, tries them out most speedily, and gives the most care to building up a permanent labor force. By providing the worker with an added inducement to keep a good job and the employer with an added inducement to keep a good man, it would tend to stabilize American industry and favor the survival of the types of employer and worker society ought most to encourage.

AFTER-WAR READJUSTMENT: LIBERATING GOLD

By A. C. Miller
Federal Reserve Board

During the past four years gold has sustained a most serious fall of value. Tested by price levels in leading markets, it has lost about one-half of its purchasing power since the beginning of the European War. Never before in its history has gold experienced any such change of value in so short a period of time. Moreover, this great decline in its value has not been occasioned by an increase in its production. While the value of gold has been falling, its production has been declining (the decline for the year 1917 being an amount equal to 7 per cent of the gold output of 1916, the estimated production for 1918 being 11 per cent below that of 1917). Contrary to previous experience it is the fall in its value that has occasioned the fall in its production. Gold mining has become unprofitable, except for the best situated mines, because of the diminished purchasing power of the dollar.

So serious a decline in the value of the standard is naturally calculated to awaken concern. Unless the decline is to be treated as a transitory phenomenon, there would be reasonable ground for dissatisfaction with the continued use of the gold standard. Such dissatisfaction was voiced even before 1914, because of the instability that was exhibited by the gold standard. It is not surprising, therefore, that in view of the spectacular decline of the past four years, question should have been raised as to the continued desirability of the gold standard, at any rate, unless some method of providing protection against its fluctuations should be made a part of it. Looked at from this point of view the immediate problem presented by the gold standard is that of restoring its lost value and insuring the stability of that value.

But this is not the only anxiety that has been occasioned by the peculiar behavior of gold. Fear has oftentimes been expressed that the vast financial and credit structure that has been built up on the gold basis during the last four years is insecure because of an inadequate gold reserve, a condition which it is said threatens to become worse with diminishing production of gold. The gold standard, it is said, has been put in jeopardy because the supply of gold is insufficient, and heroic measures must, therefore, it is said, be taken to stimulate the production of gold. The particu-

lar measures suggested for this purpose are the exemption of gold mining from taxation, the granting of bounties to gold producers, and, as a much more radical proceeding, the diminution of the gold content of coins.

Gold has fallen in its purchasing power, because it has shared the fate of paper from rising prices. Prices at wholesale are "up" about 100 per cent or more in leading markets in countries where the gold standard still obtains.

Why are prices up, and are they destined to stay up? These are obviously questions that must be answered in undertaking to estimate the prospects of gold. Prices began to go up in the United States about the end of 1915, partly in consequence of heavy demands for goods for use in the belligerent countries of Europe, and partly in consequence of the easy credit conditions that prevailed in the United States, and the growing abundance of money following the steady inflow of gold from Europe in payment of purchases made here. That movement continued through the year 1916, and into the year 1917. Prices steadily continued to rise. They have gone on rising since we entered the war, being now 100 per cent or more above the June, 1914, level for wholesale, and 73 per cent for retail, prices.

Not until much patient and exhaustive investigation has been made can it be determined, with anything like satisfactory accuracy, to what extent the great rise of prices, which has taken place in the last four years, is to be explained by relative shortage of leading materials and commodities, and to what extent it is due to the artificial abundance of money. No doubt, both factors have been at work, and the high prices which have prevailed are partly to be regarded as indicating "scarcity values" and partly as indicating inflated prices. The scarcity prices will, no doubt, correct themselves and disappear as industry returns to a normal condition. Inflated prices, however, present a more difficult situation. Their corrective must be sought mainly in a diminution in the volume of purchasing power, and must come in the United States mainly in the liquidation of war business and war borrowings.

The expansion of circulating bank-deposit credit in the United States during the past four years may be conservatively estimated at from 40 to 50 per cent. The amount of securities issued by the government in the process of negotiating the great war loans—in the form of bonds and certificates of indebtedness—which there

is good reason for believing have not yet been absorbed by permanent investment, may be estimated at six billions of dollars.

A considerable part of our expanded credit and currency structure is therefore undoubtedly to be accounted for by the large volume of war securities being carried by or in the banks. It is the considerable addition to the volume of our currency and circulating bank credit thus occasioned that explains much of the rise of prices that we have been experiencing.

In the United States prices are gold prices, all of our paper currency being interchangeable with gold, and therefore, at a parity with gold. In part, gold prices have risen because of the abundance of gold, our stock having been increased by more than one thousand millions of dollars since 1914. However, it is not the direct, but the indirect, effect of this gold that has sustained the upward flight of prices. It is the great volume of circulating credit and currency based upon it that has put or kept prices up.

Are prices to be kept up? Can they be kept up, and will they be kept up?

The fate of gold and the future of the gold standard will depend mainly upon the answers given to these questions. More than this, the character of the whole post-war period, and the nature and length of the readjustments which it is admitted must be worked out, will depend upon these answers.

Gold will not recover its lost purchasing power until prices decline. Financial, credit, and business relationships, which have been thrown into confusion by reason of the rise in prices, will not be straightened out until the price situation is rectified. But the price situation will not be rectified until the expansion of our currency and credit attributable to the buying of war securities on credit has been eliminated, and the volume of credit and currency has once more been brought back to a normal economic volume—that is to say, a volume corresponding to the needs of industry and trade for the production and exchange of goods at normal values.

The only reason for doubting whether the existing gold stock of the leading western countries is sufficient to hold out the expectation that the monetary practices associated with an effective gold standard can soon be resumed, is the doubt as to what the attitude of the leading countries of the commercial world will be toward a continuance of the present inflated price structure. The whole commercial world is on an inflated basis. The situation

is worse in some countries than in others; in some the inflation is a gold inflation, in others, it is a paper inflation; but in all a situation has been produced, either by reason of the abundance of gold or the abundance of paper and credit currency, that calls for much the same sort of general treatment, unless the present inflated level of prices is to be continued by acquiesence of the leading countries. It is doubtful whether any one country could move very far or very rapidly without affecting others in ways that would probably be regarded as detrimental and inimical.

The price problem is an international or world problem, and the same may be said of the problem of gold. Gold will not recover its lost value until present inflated prices disappear. Action by any one country, however, in proceeding to rectify its price situation would probably do much to focus international attention on the problem and to suggest the advisability of taking similar action. Indeed, the recent reports of the British Committee on Currency and Foreign Exchanges After the War and of the Committee on Financial Facilities of Trade After the War show that the matter is having the studied attention of the most competent authorities in Great Britain, and that there is unanimity in the opinion that the restoration of an effective gold standard is one of the best forms of protection against a further increase of inflation. It may be added, it is also one of the best remedies for the inflation which already exists.

If policies and views in our own and other leading commercial countries run in favor of reducing price levels by a process of liquidation and contraction, there is nothing at all to fear from the present diminished production of gold. The restoration of the gold standard and the monetary practices associated with it in the leading gold standard countries could soon be resumed, thus restoring gold to the exercise of its important prewar function, namely, that of regulating through its international flow price levels in the different countries in accordance with international conditions of demand and supply, a function which has been pretty much in abeyance throughout the last four years. But even if only moderate progress should be made in liquidation of war credits and much of the present inflation in the western world be continued, there is nothing in the present diminished production of gold that need awaken serious concern, much less alarm, and least of all in the United States.

Much as I believe that the permanent economic interest of the

United States and of the nations with which we have been associated require that the inflation produced by the war should be cured by a diminution of banking liabilities, I still believe that the supply of gold possessed and controlled by them is large enough to supply a banking reserve adequate to maintain an effective gold standard, if the light thrown by the experience of the war upon the ability of a given unit of metallic reserve to sustain a much larger volume of credit than was assumed in prewar days may be taken as a guide in the future, provided that the supply be redistributed, and that some of the monetary practices begun during the war, which have resulted in great economy in the use of gold, be continued.

Following the classic example of England, the gold standard countries before the war pretty generally pursued the policy of maintaining a considerable volume of gold coin in actual circulation. "No gold standard without a gold currency" represented the orthodox view. During the war the policy of concentrating the gold scattered in the channels of circulation and the pockets of the people into great reserve institutions has been systematically followed with results that are reflected in the vast increase in the gold holdings of our Federal Reserve Banks and many of the central banks in other countries, at a rate far in excess of the annual output of gold from the mines. Gold holdings of the world's fifteen principal banks of issue increased from $3,646,-000,000 in July, 1914, to $6,258,000,000 in November, 1918, a gain of $2,600,000,000 or more than $800,000,000 in excess of the total new gold taken from the mines during this period. It does not seem probable that, for many years to come, if ever, there will be a return to the old practice of maintaining a large body of gold in circulation. The gold, which has been concentrated in the great reserve and note-issuing banks, is likely to be kept there. The gold standard will henceforth be dissociated from the widespread use of gold in circulation. The problem of maintaining an effective gold standard, therefore, becomes more than ever a problem of banking, and especially one of the management of the reserve.

Considering the great importance of the subject and the length and variety of the experience, it is surprising how little there is that can be called a science of banking reserves. Not only has there been great diversity of practice among leading gold standard countries with reference to reserves, but there has also been

more or less diversity of opinion on the subject in each of the principal countries. More than that, if we compare the fifteen years preceding the outbreak of the war with earlier periods of similar length, we find that there was a marked tendency of reserve ratios to rise with the increase in the production of gold since the beginning of the century. More and more have the great banks become repositories of gold, a large part of the new gold taken from the mines having found its way into the banks, there constituting more or less of a dead asset. Reserve ratios in leading banking systems seldom ran so uniformly high as during the period 1900-14; indeed, they were so high as probably to be regarded from an economic point of view as in excess of reasonable requirements.

The contingencies against which a banking reserve of gold was required in prewar times may be set down as three: (1) to maintain the parity of internal circulation with gold by freely providing gold to meet a foreign drain; (2) the psychological function of inspiring confidence in the strength, stability, and safety of a country's financial and credit system; and (3) to provide a store of purchasing power for use in times of national emergency, such as war.

Of these functions, the first is by far the most important from a banking and economic standpoint. It must be mainly by its ability to provide gold for meeting and thereby correcting an adverse balance of trade that the adequacy of the banking reserve carried in any country of centralized reserves must be tested. It is of course through the medium of changes in the amount of its banking reserve—flowing out and diminishing when the balance is adverse, flowing in and increasing when the balance is favorable—that the general price level in gold standard countries is kept in proper relation to the world level of gold prices; prices falling as an adverse balance is in process of correction through an outflow of gold and rising as a favorable balance is in process through an inflow. Looking at the matter of reserves from the economic point of view, the adjustment of the volume of a country's credit and banking currency to what is necessary to maintain prices at their proper economic level may be described as the most important function of a nation's banking reserve. The gold of the world and the new gold as it comes from the mines is constantly in process of distribution and redistribution. It is thus that the international price level is maintained or rectified in accordance with

underlying conditions governing the equation of international demand and supply of the different countries. As such, the gold reserve is an economic regulator of the very first importance. It is a method of testing the character and volume of a country's credit and currency and so keeping it from getting out of line with economic requirements, particularly in relation to world conditions. As regards this function of a regulator, it seems obvious that it is not the absolute level of the reserve ratio that is significant, but the variations in it which take place. The decline of an absolutely low reserve ratio will serve just as well to indicate an undue growth of banking liabilities as the decline of a higher one. Indeed there is much warrant, especially in view of recent war experiences, to justify the opinion that a reserve of moderate height is a more sensitive indicator and therefore a better regulator of banking operations than one of greater height.

With respect to the function of providing gold to meet foreign demands, it is the absolute quantity of gold held under banking control, rather than the reserve ratio, that counts. The concentration, therefore, of the bulk of the stock of monetary gold in all the leading countries under banking control means a great extension of the facilities for the international mobilization of gold—the loss of a given amount from a large reservoir of gold bulking as a lesser loss than the same amount from a smaller reserve, even though the reserve ratio in the latter case was in first instance higher than in the former. The gold strength, for example, of the Federal Reserve System internationally considered is to be found in our holdings of more than two thousand millions, quite irrespective of what the reserve percentage of the system as a whole might happen to be at any moment. The loss of what in prewar days would have been considered a very serious drain can now be faced with comparative equanimity.

With respect to the national emergency function of the reserve—that is, making provision by the accumulation of something like a national gold hoard against the vague contingencies of international politics—much will depend in the future upon the basis on which the affairs of the world are to be re-ordered as a result of the peace settlement. If the League of Nations, reduction of armaments, and the like become realities, then the accumulation of hoards of gold under the impulse of national fears or ambitions must be suffered to go the way of other outworn practices. Thus will the functions of banking reserves be reduced more nearly to

the purely economic requirements and reserves which have been thought to be inadequate in the past be quite adequate in the future.

As regards the vague function of inspiring public confidence, the matter is mainly one of psychology. *A reserve is adequate if it is thought to be adequate.* The events of the last four years have thrown the matter of the importance of a banking reserve from the psychological standpoint into a diminishing perspective. Not the least of the remarkable financial by-products of the war has been the ease with which popular expectation, confidence, and practice have adjusted themselves to the substitution of fiduciary notes for gold currency. That the spirit of patriotic fervor in war times has had much to do in inducing this change of attitude is unquestioned. The fact that, even in countries which suspended specie payment, there has been no premium on gold or discount on paper has also had much to do with breeding a spirit of indifference. It seems not unlikely that a permanent impression has been made upon monetary habits as a result of the war, which will give to the large reserve, as a means of inspiring confidence in the integrity and solidity of a country's financial system, a steadily diminishing importance in the future. Suggestion, experience, and education have much to do with this sort of matter. Just as prejudice, ignorance and habit had much to do with reserve ideas and practices before the European War, now that a definite break with the past has been made new ideas and more economical and rational practices will stand a better chance of acceptance. A considerable revision of monetary and reserve practices seems not an unlikely result of the financial experience of the war and the immediate necessities of the after-war situation.

The United States is in an exceptional position for taking the initiative in revising banking practices along more economical and rational lines: (1) because of our assured creditor position; (2) because of our unprecedented gold position; (3) because of our great banking and financial strength.

We are a creditor nation to the extent, if not at the moment, at no distant time in the future, of five hundred million dollars a year. We have increased our stock of gold since the beginning of the European War by fully 50 per cent. At the same time by the Federal Reserve Act, we have reorganized our banking reserve in such a way as greatly to economize its use and efficiency, making our banking position as a whole one of far greater strength and

safety than ever before. More than two thousand millions of gold concentrated in the hands of the Federal Reserve Banks constitutes it the greatest gold reserve the world has ever known.

We are, therefore, in a matchless position to assume the function of a free-gold market, a function which the world in the process of economic readjustment and recovery will sorely need. There must somewhere be a market in which claims can be established in gold with a certainty that they can be cashed in gold and that gold will be forthcoming for foreign shipment. Whatever might have been said in justification of the embargo on gold shipments, which the United States in common with the other belligerent nations have practiced as a matter of admitted military necessity, the embargo should be lifted at the earliest practicable moment; that is, as soon as our international financial relationships are such that we are no longer under the necessity of taking care of adverse balances of the nations with which we have been associated in the war arising out of their trade with neutral countries.

We must deal with our great gold stock in a spirit of liberality. We have far more gold than we need to do our money and banking work. The surplus was obtained from other countries largely because of their necessities. They need it back in order to effect the restoration of their finances, more particularly to insure the resumption and maintenance of gold payments. We should not hesitate to part with much of it if we could have the assurance that the countries receiving it would proceed to lift their embargoes and restrictions and deal in the future with gold in the spirit of the new international reciprocity which is expected to be one of the consequences of the war.

AFTER-WAR READJUSTMENT: LIBERATING GOLD-DISCUSSION

Elisha M. Friedman.—There are three statements in Dr. Miller's presentation which merit discussion:

1. The paper of Germany was at a discount with respect to gold while that of France and Great Britain was not.

2. The Federal Reserve System has been patterned too much after German banking models.

3. We ought to release our mobilized gold.

1. There have appeared statements to the effect that French and Italian paper were at a discount with respect to gold. But the vital distinction between the weakness of German finance as compared to that of the Allied Powers is that the latter had a great financial reserve to draw on,—the loans raised in the United States while it was neutral, and the government credits extended after it entered the conflict.

Our entry into the war solved the financial difficulties of the Allies. The United States Government advanced credits to cover purchases made here. The financial strength of our associates in the war was derived from their affiliation with the United States, just as Germany's weakness consisted in her isolation. The increase in her paper money and the decline in the ratio of gold to notes was not very different from that of either France or Italy.

The difference contains a post-war moral, the value of coöperation in the attempt to reëstablish international credit.

2. The statement that the Federal Reserve System has developed along German lines is subject to qualification.

The outstanding feature of the German banks is the alliance between industry and the banks. The Norddeutscher Lloyd and the Deutsche Bank, the Allegemeine Electricitaets Gesellschaft, and the Berlin Handelsgesellschaft are illustrations in point. The banks in each case function as underwriters and issue the securities of the related industry. By contrast, our Federal Reserve members are more strictly banks of deposit, like the British and French banks. However, the English think so well of the union of industry and finance that they founded the British Trade Corporation to secure the benefits thereof. As for the French, Deputy Victor Boret, in his *Credit de Demain,* laments the rigidity of the French banking system and lauds the elasticity of the German. Eugene Le Tailleur, author of *Pour Renaitre* and of *Vers la Democratie Nouvelle,* says, "The nameless

barbarism of German militarism should not let us forget that Germany represents a stage superior to our own in economic organization, and that she has so far surpassed us on the road of industrialization that we shall be obliged, whether we will or no, to become inspired by her methods."

No less an authority than Sir Edward H. Holden of the London City and Midland Bank, in his annual report for 1918, praised the organization and functioning of the Federal Reserve System.

Again, as far as the gold policy is concerned, not alone Germany, but the entire Continent made it a point to conserve its gold supply. Figures of the excess imports over exports of gold for the decade 1903-12 were—

For Germany	$340,538,000
For France	676,592,000
For Italy	93,037.000

The Federal Reserve System was established almost at the beginning of the Great War. Its development took place under abnormal conditions. As a war-time expedient the Federal Reserve System followed the peace-time policy not of Germany but of the Continent.

3. As for an after-war gold policy, we ought to hold on to our mobilized gold until and unless we know what the policy of the other powers is to be.[1]

There are two reasons for this course. We entered the war for no selfish gain. As Mr. Wilson put it, "We ask nothing for ourselves that we would not ask for all the nations." Selfish schemes may be thrust forward by some of the nations at the peace table. Controlling one third of the world's gold supply, the plea of America for a sane internationalism may not fall on deaf ears. It might be advisable to take no action on our gold policy until the Peace Conference has closed its negotiations. A second reason is that if international credit is to be reorganized, it will probably be as a result of some joint action by the Powers. We should therefore consider ourselves trustees until a common financial policy and an international financial organization is developed.

[1] The Cunliffe Report recommends that England build up a "normal minimum central reserve" of three-quarters of a billion dollars.

THE FUTURE OF THE GERMAN MARK

By J. E. Rovensky

National Bank of Commerce in New York

Substantially all the commercial countries of the world are today (December 28, 1918) more or less off the gold monetary basis. International exchange is to a large extent subject to arbitrary regulation—the most effective measure being the inter-governmental loans that have been negotiated between the Allies. To the extent that international exchange is free of such regulation, it may be said to be not on a gold, but on a commodity, basis. The exchanges had not reached the levels that probably would have resulted from a full play of the commodity-basis principle when the war ended. Exchange rates, although one of the most sensitive instruments of trade when the fluctuations are within customary levels, have displayed at times during the last four years a certain immobility and lack of full response to trade conditions that can only be explained by people's habit of thought and trade customs. Gold has retained its place in the people's thought as the ultimate measure of values, even when commodities have been the basis of international payments. And paper money, nominally redeemable in a fixed weight of gold, has in many cases been kept much closer to gold par, both in domestic and in international exchange, than was warranted either by the prospects of gold redemption or by the course of international commodity shipments.

The following table shows the range of exchange fluctuations at New York during the war:

Rates for Bankers Sight Drafts

High	Low	7/27/14	12/24/18
England 556 (Aug. 1, 1914)	4.50 (Sept. 1, 1915)	4.92	4.7580
France 460 (July 30, 1914)	6.07½ (Apr. 13, 1916)	5.14 3/8	5.45½
Italy 490 (July 31, 1914)	9.16 (May 27, 1918)	5.16¼	6.36
Switzerland 3.84 (May 20, 1918)	5.52½ (Mar. 2, 1915)	5.14 3/8	4.80
Holland 51¾ (July 22, 1918)	39 5/16 (Apr. 15, 1915)	40¼	42½
Sweden 47.50 (Nov. 2, 1917)	24.28 (Feb. 24, 1915)	a	29.40
Norway 38.00 (Nov. 2, 1917)	24.23 (Feb. 24, 1915)	a	28.20
Denmark 33½ (Dec. 1, 1917)	24 1/8 (Feb. 24, 1915)	26 7/8	27
Spain 30.75 (Apr. 16, 1918)	18.60 (July 2, 1915)	—*	20.05

* Rates unavailable.

The rapidity with which exchange rates have moved toward normal levels since the end of the war is most remarkable. Be-

tween October 1 and November 18, 1918, we witnessed the following changes:

Country	Oct. 1	Nov. 20	Per cent of Change	Per cent of par
England	4.7655	4.765	— .001049%	97.914%
France	5.46	5.4525	+ .0137%	95.958%
Italy	6.35	6.35	0 - - 0 - -	81.601%
Switzerland	4.69	4.95	— 5.543%	104.673%
Holland	.47	.4225	— 10.1063%	105.099%
Sweden	.32	.2800	+ 12.50%	104.477%
Norway	.2950	.2750	— 6.779%	102.611%
Denmark	.2890	.2680	— 7.266%	100 - - %
Spain	.2225	.2000	+ 10.112%	103.626%

To a large extent sentiment and foresight on the part of international bankers caused the movements in the neutral exchanges, although the immediate prospect of less restricted shipping also played an important part. The Allied countries moved the least —the exchanges there are more or less linked with ours and furthermore are in complete control of their respective governments.

Notwithstanding this rapid progress toward normalization, the prospects are that exchange on a large part of the commercial world will remain upon a commodity basis for some time. The United States and Japan are now, in my opinion, in a position to permit the free movement of gold if it were not for the financial cord that binds them to the Allies. England also should shortly be able to permit the free movement of gold, with France following closely. Resumption on the part of the other Allied countries (excluding Russia and the minor countries) may be somewhat slower, but should present no great problems. This, however, cannot be said of the enemy countries, and the problems presented by their situation range from mere hope to utter despair.

We may ignore the problems of Turkey and Bulgaria—they are practically of no importance to the commercial world—and confine ourselves to those of Austria and Germany. Austria has disintegrated into a number of nations, each of which will undoubtedly assume its share of the prewar debt, but most of which will also undoubtedly refuse to assume any part of the war debt. This will leave the extra burden of the war loans resting upon the German part of Austria and Magyar Hungary. The tremendous expansion in the volume of currency, being based either indirectly or directly upon advances made by the Austro-Hungarian Bank to the government during the war, will fall upon the German and

Magyar remnant of the former empire. The financial future here depends almost entirely upon the political future of these countries. Should Hungary sever her connections with Austria—as seems certain at present—she should assume her share of both the war and prewar debts of Austria-Hungary. Being partners in crime, they should be partners in punishment. Just how Hungary would solve her financial problems is not of much importance to the commercial world, but it is difficult to conceive any measure that could bring her back to a gold basis, within a reasonable length of time, short of a drastic revision of the currency amounting to partial repudiation. German Austria probably will ally herself with Germany proper. Bearing in mind the condition in which she applies for membership in the German family, let us consider the problem of Germany herself.

Germany has today, according to the best information I can gather, gold amounting to almost $548,000,000. But part of this was probably taken from Russia. By the terms of the armistice, the Russian part is to be surrendered at once. Although we are unable to state exactly how much we need to reduce the gold holdings, let us take the statement of the Reichsbank of December 14, 1918, at its face value, and count Germany's gold reserve at $548,000,000. At about the same time, Germany had paper money issues of about $7,200,000,000, including Reichsbank notes of about $4,680,000,000, Darlehnskassenscheine of about $2,400,000,000, and around $100,000,000 of Imperial Treasury notes. The foreign debt of the German government is, apparently, small, and much more than offset by credits granted to allies during the war, some of which may some day be collectible. But the domestic funded debt is about $23,500,000,000. In addition, there is a large floating debt, and there are heavy debts incurred by the various states of the Empire, and by the municipalities during the war. Not all of these public debts are to be counted as additional to the paper money outstanding, since to a large extent the paper money is secured by these debts. But with all possible subtractions, the liabilities resting directly or indirectly on the German Empire are appalling, without any consideration of the indemnities sure to be imposed.

The real difficulties of the situation are perhaps more precisely revealed if we consider the enormous expansion of the demand liabilities of the German banks, including the Darlehnskassen, and taking account of both notes and deposits. The full story is hard

to get. But the figures that follow indicate clearly enough the trend.

The Reichsbank notes were only \$692,000,000 on July 31, 1914, but reached \$4,000,000,000 by October 31, 1918. Deposits in the Reichsbank were \$300,000,000 on the earlier date, but had reached well over \$2,000,000,000 by the later date, making a total expansion of demand liabilities of over \$4,000,000,000. The whole of the \$2,400,000,000 of the Darlehnskassenscheine represents war expansion. In addition, we have gigantic swelling of deposit liabilities of the other German banks. Thus, the Deutsche Bank's deposits were \$395,000,000 at the end of 1913, and \$1,415,000,000 at the end of 1917; the Dresdner Bank (same dates) increased deposits from \$240,000,000 to \$730,000,000, and the Discontogesellschaft from \$250,000,000 to \$725,000,000. These increases are partially due to amalgamations. To sum up these items would be misleading, because, on the one hand, there are some duplications—deposits and notes of the Reichsbank are in part assets of the other German banks; and misleading on the other hand, because we have not included in our figures notes of the other German banks of issue, or (much more important) the great increase in deposits of other German banks. But these figures indicate an enormous increase in the current liabilities of German banks.

To offset these, there is little increase in really liquid assets. The great bulk of this expansion must rest on the war obligations of the German government. Commercial and industrial paper of a satisfactory character must be exceedingly scarce. The gold of the Reichsbank increased from \$298,000,000 to \$607,000,000 between July 31, 1914, and October 31, 1918, but part of this increase has doubtless been drawn from the other banks in Germany and much of it from the pockets of the German people, so that it does not represent net gain for the system as a whole. In any case, it is far from an adequate offset to the loss of liquidity in the great bulk of the assets of the German banks.

The exchange value of the mark, measured through the medium of neutral exchanges according to latest information obtainable (Nov. 18, 1918), is about 58 per cent of par. If the barriers upon trade and exchange operations were to be lifted today, the mark would probably decline further, as Germany would seek to import far more than she could export, and foreign capital would for some time not be likely to flow there. Admitting the German

part of Austria will certainly not lessen her financial problems. On the contrary, they would be greatly increased thereby. The indemnities exacted by the Allies will add to her external obligations that must ultimately be paid by exports of commodities or gold. All these factors show the extremely difficult position in which Germany will find herself when she seeks to reënter the world's markets. She cannot enter with her currency on any other than a commodity basis in international exchange, and if she decides upon the policy of resuming the gold basis by means of contraction of currency through taxation and the funding of loans, the operation will require many years. A vigorous policy by a strong government could contract the outstanding paper to a point that would permit resumption of gold payments. The process would be to collect the hoarded paper money from the people by taxation or public loans, and turn over the proceeds to the Reichsbank or the Darlehnskassen in cancellation of the government's debts held by these institutions. It is not at all necessary to collect a vast amount of gold before resuming specie payments. But Germany is wholly unlikely to use such a vigorous policy. In the most favorable event which it is reasonable to expect, she would be for many years upon a most unstable basis. Meanwhile, the majority of the commercial world would be operating upon the gold basis, and the mark would be subject to violent exchange fluctuations.

Will Germany adopt this extremely difficult policy, or will she remedy her currency problems and those of German Austria by that favorite nostrum of the politician financier—a revision of the currency? So many well-sounding arguments can be marshalled in favor of the latter that I am inclined to the opinion that some such measure will be attempted. It will be contended that, the government having borrowed a depreciated currency, the debt should not be repaid in a money possessing greater commodity value. It is true that prewar creditors would fare unjustly, but after all the volume of such debts is not to be compared with the volume of the war debt and the currency issues. Furthermore, a revision plan is so easily placed in operation that it presents a tempting avenue of escape for the political financier from the difficult prospect of redeeming debts in gold. A new currency would be issued, into which the old issue of German marks and Austrian crowns would be convertible at par, the gold content of the coin in which the new currency would be redeemable being based upon

international exchange rates of the old mark at the time of the "revision" (or repudiation). Thus the country would immediately find itself "upon a gold basis."

Whether the Allies would permit such a measure is a question that depends upon many factors now uncertain, but at present it does not seem to me that they would be greatly interested. Their indemnities would be payable in gold or its equivalent and they may reason that a "revision" process is less likely to repress industrial activity in Germany than heavy taxation and a contraction of currency. They may, therefore, view with favor such a policy, believing it to add to Germany's ability to pay the indemnities.

OBSERVATIONS ON FOREIGN EXCHANGE

By Robert L. Owen

United States Senate

The American dollar should be kept at par throughout the world, so that it may become the medium through which international contracts will then preferably be made.

The United States, as a government, should provide that the American dollar be kept at gold par throughout the world in terms of foreign currency, at least to the extent that at some central point, or points, such as London, Berlin, Petrograd, Paris, and Rome in Europe, and leading points in other parts of the world, manufacturers and merchants can rely upon the American dollar being exchanged at gold par for the currency of other countries, leaving the United States as a government to absorb the difference, if any.

There would be no great difficulty in making this effective and practically without cost in the long run, for the United States could establish a Federal Reserve Foreign Bank that would keep gold deposits at these various points, and thereby would be able to meet such fluctuations without difficulty.

Nations pay for imports with exports through a period of years and do not pay in any other way, except temporarily and in a minor degree.

Nations cannot pay for commodities and services with gold or credits, except to a limited degree, for the obvious reason that otherwise a nation would have no gold with which to support its currency. A per capita circulation of gold must remain relatively constant.

When it is clearly recognized as a principle that nations must pay for commodities and services with commodities and services, and not with gold or credits, except as a temporary bridge, it becomes evident that nations restricting imports in that precise degree restrict exports; and just to the extent that they refuse the goods of other nations, they prevent other nations from accepting their goods. This principle being accepted, it will be seen that putting a dollar at par and keeping it there will involve no real expense to the government of the United States.

The mechanism for doing this should be provided through the Federal Reserve Foreign Bank, a plan for which I presented to Congress during the last session of the Senate.

It may easily happen that the United States would receive more goods from some country than the United States would ship to that country. In that event, United States bonds should be placed in such country to bridge the temporary commodity indebtedness, or the indebtedness should be liquidated by drafts drawn on other nations where the United States has a credit based on commodities.

The one matter of vital importance is to put the dollar at par and keep it at par, permitting it to go neither up nor down, so that manufacturers and merchants, importers and exporters, throughout the world, shall always have a fixed monetary standard for measuring their contracts. Men who sell goods to America in terms of dollars do not want that dollar to depreciate, just as the silk merchants of Italy, who sell silk for the lire, do not wish to find a violent depreciation of the lire. If the dollar was stabilized by act of government, contracts between Italy and the United States would be drawn in terms of dollars and not in terms of lire.

A merchant buying goods from Spain in terms of pesetas is injured if the pesetas rise 50 per cent, as they have done since the United States entered the war. A merchant should make his purchases in terms of dollars, and the seller would be willing to sell in terms of dollars, if the dollars had a fixed gold relation to the pesetas and the peseta was not standardized relatively to the dollar by its own government.

In other words, if the dollar is made a standard measure of value by the government—and this can be done without any serious cost—a dollar will be the measure of international contracts throughout the world, and New York will become the financial center of the world through the discount of bills payable in terms of dollars.

Great Britain understands this quite well and in a certain degree has standardized the pound sterling.

Importers and exporters, and above all, bankers, should demand that the American dollar take first rank as the measure of value of contracts throughout the world.

STABILIZING THE DOLLAR

By Irving Fisher
Yale University

Monetary Standards throughout the world have been disrupted by the war. Inflation in various forms, such as paper-money inflation and bank-credit inflation among the countries at war, and gold inflation among other countries, has everywhere caused a depreciation of monetary units. Consequently we have high prices the world over, even where there is no scarcity of goods. Already, before the war, there was world-wide complaint of the high cost of living, but the rise in this country before 1914 was small compared to what it has been since. Between 1913 and 1918 prices had increased 107 per cent; whereas between 1896 and 1913 the increase was only 50 per cent.

Prior to 1896, partly because of a disproportion between the increase in the amount of currency and the more rapid increase in the demands of business, there had been a decrease in the price level. This had caused as much complaint as the present rising prices. The situation had become so serious that various alleged remedies were suggested to stop or offset the fall.

As to the future, the general expectation seems to be of a decline in prices, which would, however, if sharp, be just as great an evil as the present high prices. A rapid contraction of the currency would be a grave danger in times of reconstruction. A fall in prices (or appreciation of the dollar) would put a heavy burden on the debtor, who must repay so much more than he borrowed. However, this fall is not certain, and the very uncertainty is itself an evil.

The truth is, the purchasing power of the dollar and other monetary units has always been and, until some radical remedy is applied, always will be unstable. The dollar is, to be sure, stable in weight, for, by definition, it is 25.8 gr. of gold, 9/10 fine. But, for that very reason, it fluctuates in value-in-exchange, according to the various forces affecting gold and the various forces affecting the volume of currency, such as methods of gold mining, changes in the use of credit, and so on. Other units, the pound, the yard, the bushel, once fluctuated as the "unit of value" now does, but with the progress of civilization, they have, one after another, been standardized. Our unstable and unstandardized

monetary units are among the last remnants of barbarism and are out of place in present-day civilization.

The fundamental reason why the dollar has not hitherto been standardized in value is that only within a generation have we had the means of measuring its value. Before the pound weight could be stabilized, scales had to be invented, and before any other units could be stabilized, the proper instruments for measuring them had to be devised. For measuring changes in the price level we now have the "index number" of prices.

This use of the index number would carry one step further the transition in our conception of money which began with the Bullion Report. At that time, the public was educated up to the point of recognizing gold as the standard for measuring paper money, although in the market paper was the standard in terms of which the price of gold was recorded. But it still remains to grasp the concept of measuring gold in goods instead of, as at present, goods in gold. It is as great an advance in thought to think in terms of goods instead of in terms of gold as it was, a century ago, to think in terms of gold instead of in terms of paper. Whether, in the future, we shall find a still more absolute standard of value need not concern us now. The point is that we now have, in the index number, a means of measuring gold appreciation and depreciation in terms of goods.

In connection with the proposal to stabilize the dollar, two main questions need to be asked: (1) At what price level do we want to start a stable dollar? (2) How can that price level be kept?

In regard to the first question, the present price level is so abnormally high that it seems doubtful wisdom to launch a plan which would fix the dollar at its present low purchasing power. At the same time it would be absurd to go back to 1896, the low-water mark of prices, for the debts existing then have almost all been paid and wages and salaries have become adjusted to a higher level. We can not now do justice to all those who suffered by past price movements. The chief object of stabilization is to provide a stable yardstick for contracts to serve future generations of business. Next in importance is the object of preventing injustice, in the immediate future, to those who are now debtors or creditors or who would otherwise be affected by any impending unforeseen fluctuation in monetary standards. It may, therefore, be necessary to endure some injustice, at the time of inaugurating the new plan, for the sake of bringing about the ultimate reform,

but by a careful study of existing contracts, practical justice can be attained.

Most existing contracts and understandings were made during the war. A rough estimate which I have made of existing indebtedness—bonds, notes, mortgages, bank loans, and other obligations —seems to indicate that their average duration is approximately two years. If then the price level should soon become what it was two years ago, say in 1916-17, it would seem wise to adopt that level as the start-off.

As to the second question, how to keep this price level, or in other words, how to stabilize the dollar, there may be other solutions than the one I have been active in advocating. The important point is to find *some* solution. The evils of an unstable dollar are intolerable. The solution of the problem is one of the tasks of reconstruction. One of the simplest and yet one of the greatest reforms that we economists can advocate is this one. It is as simple as daylight saving, and a million times as important. Stabilizing the dollar affects not simply money, but relates itself to the whole question of the distribution of wealth and to labor unrest. The disproportion between the level of wages and the soaring price level has, for instance, been responsible for much of the recent labor agitation.

The particular plan which I am about to discuss is somewhat associated with my name, but I am not its sole author. It was worked out independently before me, in some detail, by Aneurin Williams, M. P., Professor (now Dean) Smith of the University of Washington, D. J. Tinnes of Hunter, N. D., and Henry Heaton of Atlantic, Iowa; and in its general idea, by President Woodrow Wilson, Simon Newcomb, Alfred Russel Wallace, Professor Alfred Marshall, William C. Foster of Watertown, Mass., and others.

Briefly, this particular proposal is to shift the weight of the dollar (or the amount of gold bullion exchangeable for a gold certificate) up or down according as the purchasing power of the dollar (as measured by the index number of prices) goes down or up. Thus the purchasing power of the gold certificate will be kept constant in terms of goods while the weight of the gold dollar is allowed to fluctuate.

I shall assume that the plan, in a general way, is understood.[1]

[1] See *American Problems of Reconstruction* (E. P. Dutton & Co., 1918); article by Irving Fisher, "Stabilizing the Dollar in Purchasing Power"; and forthcoming book by same title, to be published by Macmillan.

None of the technical difficulties in such a plan is in any way serious. I shall refer to only a few of them.

First, as to the gold reserve behind the proposed gold certificates or, as they would better be called under the new system, the gold dollar certificates. If the gold dollar certificates outstanding are now equal, dollar for dollar, to the gold in the Treasury, but next month, because of a change in weight of the dollar, they call for one per cent more gold, must the Treasury find the additional bullion and if so how? It would, of course, be perfectly possible (though not necessary) to maintain, as at present, a 100 per cent reserve against these certificates, the government making up the deficit when gold depreciated, perhaps through taxation. If, on the other hand, gold were appreciating, the government would reap a profit. This gain and loss, however, are not really new phenomena resulting from stabilizing the dollar. They exist to-day. But, under our present system, the loss (or gain) falls on the individual holder of gold certificates instead of on the government. Stabilizing the dollar simply affords a specific measure of this loss, if it be a loss, and maintaining the reserve translates that loss into taxes.

It would be more simple, however, to allow the reserve gradually to fall below par, say, to 50 per cent, before replenishing the supply of bullion. Any surplus above this 50 per cent which might exist at a time of falling prices or decreasing dollar weight could be put to work to earn interest which would to a large extent provide against loss when prices began to rise again. This could be done by investing this "surplus" in government bonds.

A second technical point in the plan is the choice of the index number which is to be the basis of the changes in the "dollar-weight." Although the method of computing the index number has surprisingly little effect in general on the resulting figures, nevertheless differences do appear; and it is therefore worth while to construct an index number as nearly perfect as possible. The main factors are the markets from which prices are collected; the kind of prices, that is, wholesale or retail; the list of commodities included; the frequency of calculation; and the formula for calculation.

For the first, the markets should be the chief public markets of the United States such as those now used by the United States Bureau of Labor Statistics, and the prices should be secured through government agents and trade journals.

I am at present rather inclined to think that wholesale prices should be used, first because of the greater ease they offer in standardizing certain grades of goods, and secondly because of their greater sensitiveness to the influences which affect price levels. This second reason is illustrated by the contrast between street-railway fares, which remained the same through two decades of price upheavals which affected all other prices, and silver, which is rarely quoted the same on two successive days.

This same consideration is important in selecting the list of commodities, which should exclude the sluggish commodities in order to be promptly responsive to price changes. I have had an index number of such responsive commodities calculated through the help of Mr. Bell of the Bureau of Labor Statistics, and it shows a rise greater and prompter since 1914 than that of the regular index number, including, as it does, sluggish and price-fixed articles.

I believe that, if wholesale prices are stabilized, retail prices will also be stable. The present discrepancy between the movement of retail and wholesale prices is due to the lagging behind of the retail prices whenever the wholesale prices move more swiftly up or down. But there can be no lagging behind when prices are stable. I am much gratified, however, as well as surprised, to learn that Commissioner Meeker has worked out a satisfactory index for cost of living based on retail prices. This should certainly be used for wage adjustment, so long as we have no stabilization of money.

The frequency of calculating the index number (which means the frequency of adjusting the dollar weight) depends on the time required to calculate an index number and that required for such an adjustment to be felt. Judging from the rapidity with which some of the commercial index numbers are calculated and published, I believe an index number could easily be calculated within two or three days after the date for which the prices are quoted. How quickly the index number responds to a change in the monetary supply has never been fully demonstrated. A lag of from one to three months is most probable.

So much for some of the points of this particular plan.

There are a number of other details which will have to be considered when, if ever, this plan comes up for legislative adoption and which will be treated in my book. But those which have been mentioned are those of most importance.

STABILIZING THE DOLLAR—DISCUSSION

B. M. Anderson, Jr.—It is, of course, unnecessary in this company to state that I speak only as an individual economist, but for the sake of the record, I wish to make that statement. I should like to propose a constructive suggestion in connection with Professor Fisher's plan. I think it was six years ago that Professor Fisher and I first discussed his plan together at a meeting of the American Economic Association. At that time, I recognized the theoretical feasibility of his plan, but questioned its desirability on practical grounds. In the interval, I have become more sympathetic to the central idea of his plan, and if it were modified in the manner which I have to propose I should be disposed to advocate it, though without this modification I should regard it as dangerous in the extreme.

The modification I propose is that changes in the gold content of the dollar or in the weight of gold bullion in which the paper dollar is to be redeemed should be limited to 2 per cent or $2\frac{1}{4}$ per cent per annum. This would be adequate, as an examination of index numbers will show, to prevent such long-time swings in the average of commodity prices as took place between 1879 and 1896, or between 1896 and 1913, and so would make the dollar a satisfactory long-time "standard of deferred payments" securing justice as between debtor and creditor in long-time contracts, and freeing the world from uncertainties growing out of variations in the production and consumption of gold. It would, however, leave price levels still subject to those short-time fluctuations which come from variations in the values of goods, particularly those connected with the ups and downs of the business cycle, or with wars. Price changes in war are necessary. And there are other and better methods of dealing with the business cycle.

Not all changes in the average of commodity prices come from variations in the value of money. I think that the long time swings from 1873 (or from 1879 in the United States) to 1896, and from 1896 to 1913, were due primarily to changes in the value of gold. During the earlier period, the production of gold fell off, industrial consumption of gold increased, and new countries tried to extend the use of gold in their currency. From these various causes, gold rose in value, and as a consequence commodity prices tended downward. There were other factors making commodity prices tend downward. Great new agricultural areas were opened up and transportation improved, making agricultural products cheaper, while new manufacturing methods

increased the number of manufactured products and lowered their value, thus accentuating the fall of commodity prices. But the main factor was gold. Reversely, in the second period, there was great increase in the production of gold leading to a decline in its value and leading to a consequent rise in commodity prices. During this period, there were some factors from the goods side making prices rise. The per capita production of meat animals declined markedly in the United States, and some other factors of similar kind were at work. The rise in land prices in the United States was only in part due to a decline in the value of gold. None the less, for the great rise in prices from 1896 to 1913 gold was mainly responsible. During the war, however, the great change has been in the value of goods and not in the value of gold. I should wish to limit Professor Fisher's plan to deal with those changes which come from the side of money and not to throw upon his plan the whole burden of preventing all price changes. I should seek by his plan to keep the value of money constant, and not go with him in the further effort to *vary* the value of money in such a way as to offset variations in the values of goods. For short periods the value of gold is fairly stable. The annual production of gold makes a very moderate addition to the great permanent stock of the world's gold, and the psychological attitude of the world toward gold is such as to give it great stability in value. The belief in the stability of the value of gold tenaciously held by bankers as well as the masses of the people is itself a social institution which operates powerfully toward making gold stable over short periods of time.

To some economists the notion of a value of money as distinguished from the reciprocal of the level of prices is meaningless. To them a change in the level of prices is *ipso facto* a change in the value of money. To them the distinction I have just drawn between changes in the price level caused by changes in the value of money, and changes in the price level caused by changes in the value of goods, will have no significance. Let me, however, urge some practical considerations which must appeal to them as imposing limitations on the possibilities of Professor Fisher's plan, whether they accept the theoretical distinction or not.

Professor Fisher's plan assumes instant redemption in gold. It will work only if the Treasury stands ready at all times to pay out gold in increasing amounts as prices rise. It assumes a gold standard, or at all events gold redemption, and is merely a refinement of that system. Had it been in operation at the beginning of the war, the

Bank of England would now be responsible for nearly two and a half times as much gold for every bank note outstanding as it is now responsible for. The bank's gold holdings could not have stood the strain. Early in the war England would have gone off the gold standard absolutely and entirely, and prices would have risen in England higher than they have risen. Our own Treasury with all our gold would have been subject to great strain. Whether it would have been forced off the gold standard is not certain, but that it would have adopted the policy of suspension of gold payments is certain, and Professor Fisher's plan would consequently have broken down.

This plan, a refinement of the gold standard, and presupposing the gold standard, is too delicate and fragile a barque to navigate such troubled waters as the war has brought about.

Unless the changes under Professor Fisher's plan are limited to very small amounts, the plan would expose the Treasury to the activities of speculators in gold. Professor Fisher has seen this himself, and has proposed a special brassage charge of 1 per cent, which would have been adequate to meet the moderate changes that it was designed to meet in prewar times, but had his plan been in operation during the present war, with prices changing sometimes as much as 7 per cent a month, and rising 100 per cent or more in four years, the raids on the Treasury would have been intolerable. It has been suggested that the "bull" speculator in gold, that is, the man who anticipates a fall in prices and who takes gold from the Treasury expecting later to return it to the Treasury and get back a larger number of dollars, would be handicapped not only by the brassage charge, but also by the loss of interest on the gold bullion through the time that he held it. This is true, and it would tend to limit gold speculation in gold unless anticipated changes were very great. Even so, if such a drastic fall in prices were anticipated as now seem imminent, the "bull" speculator might very well take out gold and keep it six months and return it to the government with a handsome profit. But the case is radically different with the "bear" speculator in gold, that is, the man who, anticipating a great rise in prices, turns gold into the Treasury and takes out money, expecting to return the money later to the government and receive a larger amount of gold. This speculator has a positive advantage in the interest factor. He can take the money and lend it out during the time that he is waiting for the gold content of the dollar to increase, and so make interest as well as a profit on the speculation. It is not possible to protect the Treasury against raids from speculators under Professor Fisher's plan unless the an-

nual changes are greatly limited. If Professor Fisher's plan were applied to war-time conditions and the effort to keep prices stable during the great war, there would be no way of preventing speculative raids on the Treasury's gold reserves.

Some other points: I think we probably all agree that Professor Fisher's plan should not be adopted except by international agreement, in view of the disturbance which it would involve in the international exchanges. The world must look forward to bringing its monetary systems back on a gold basis as soon as possible, and the major countries of the world should concur in any such plan as this before it is adopted.

It is necessary also to consider the price level which is to be chosen as a normal base from which we shall start in adopting Professor Fisher's plan. Professor Fisher suggests the price level of 1916, which is, on the Bureau of Labor Statistics index number, about 23 per cent above the level of 1913, and perhaps some 71 points on the same index below the average level for 1918. In support of this 1916 price level, Professor Fisher urges that 1916 represents about the center of gravity of existing contracts. I am disposed to accept the year 1916 as probably giving about the right base, though not for the reasons that Professor Fisher offers. I think that men who made contracts in 1916, or indeed at any time during the war, did so taking into account prospective changes in prices, and that no injustice has come to them consequently from such price changes. I am interested in Professor Fisher's plan only as eliminating the changes in prices which cannot be easily forecast, which run for long periods of time. I am interested in his plan, in other words, for the sake of making money a good long-time standard of deferred payments. For the short-time periods I am inclined to the view that gold money is now a good standard, that price changes through short periods are not due to variations in the value of gold, but due to the variations in the value of goods.

My reason for being inclined to accept the average of commodity prices for 1916 as a good base is simply that it seems probable that that is about the base to which we will naturally return in the impending post-war decline of commodity prices, and that it will probably be a good many years before we get back to the 1913 basis if we ever do. You will please not understand me as venturing any exact prophecy in this matter. No one, certainly not myself, is competent to make any exact predictions as to what level of prices we may expect to reach. The thing will have to work out experimentally.

In any case, I take it we all agree that the plan should not be adopted at the present level of prices. To do that would simply perpetuate all the injustices which people on fixed incomes, bondholders, salaried men, universities, savings banks, public utilities, laborers in industries repressed by the war, and others, have suffered during the war, while if prices are allowed to come down in natural course, much of this injustice will be automatically cancelled.

Even with the modifications proposed by Professor Fisher's plan, I should still prefer some such plan as regulation of the annual output of gold through government monopoly or through a variable tax on gold production, or something of the sort. This would prevent divergence between the value of gold and the value of money. Professor Fisher's plan has the centre of the stage, however. Very many economists are interested in it and not a few public men. If adopted in the modified form which I suggest, it seems to me that it would represent a very distinct improvement in our monetary system. The modifications proposed are in summary: (1) that it be done by international agreement; (2) that it be done only after prices have gone down to something like a stable normal level; (3) that changes under the plan be limited to 2 per cent or 2¼ per cent a year.

One or two comments on certain other points that have been raised this morning. I cannot see how men can so ignore the facts of the past eighteen months as to insist that our high commodity prices are due to bank expansion caused by the government's war finance. The great increase in commodity prices of this country took place by June of 1917, before our heavy government borrowing had got well under way, and the rise since that time has been surprisingly moderate. Moreover, our main bank expansion took place before government borrowing got largely under way. The expansion from June, 1915, to June, 1917, in total bank resources of the United States was something like $10,000,000,000, while in the year that followed it was some three or four billions. It seems especially pointless to fear that further government borrowing is going to expand bank credit unduly, and to raise commodity prices. Further government borrowing will be for liquidation purposes in large measure. The government is cancelling contracts and is borrowing for the purpose of liquidating them. Contractors and sub-contractors will in considerable measure turn over the funds which the government pays them to the banks in reducing their loans at the banks. Meanwhile, it is already in evidence that declining commodity prices are somehow reducing commercial borrowing at the banks, and this process will go much further. My forecast of the future would be something of this sort.

1. Commodity prices are coming down.

2. More slowly and at a later date, the volume of bank credit will decline.

3. More slowly and at a still later date, we shall work out of the country our surplus of gold.

I am quite unable to sympathize with the point of view of those who hold that the whole trouble during the war with the price system has been government borrowing and expanding bank loans. War finance would be beautifully simple if this were the whole story. All we should need to do would be to forbid the bankers to extend credit and the problem would be solved. But the banks have not been the culprits. The Kaiser is the culprit. The wastes and demoralization of war, the withdrawing of sixty millions of men from production and putting them to work at the most destructive kind of consumption, the withdrawal of much larger numbers of laborers from ordinary civilian production to producing goods for the armies to destroy,—these are the causes of war-time prices. I am glad to be able to quote in support of this view the conclusion of Professor Wesley C. Mitchell, of the War Industries Board, who has recently issued his comparison of Civil War and present war prices, with the conclusion that while during the Civil War monetary depreciation was the main factor in high prices, during the present war this is not the case. I quote, "It would be going too far to say that during the present war monetary changes have had no effect upon prices. But certainly they have played no such dominant causative rôle as in 1862-65. On the other hand, interruptions in the supply of commodities, and changes in demand have exercised a much greater influence than they did in the Civil War."[1]

This conclusion, which I have reached on general theoretical grounds together with such study of actual prices as I have been able to make from time to time, Professor Mitchell has reached after a very detailed examination of month to month changes in prices of a large number of commodities during both wars.

The problems of war finance are far more intricate than those who have seen nothing but "inflation" in government borrowing have believed. The great problem of war finance is to provide a financial machinery whereby the industrial resources of a country may be mobilized for war purposes, so as to bring about the restriction of civilian consumption and the restriction of production for civilian use, and to bring about enormous increase in production for war purposes, and

[1] "A Comparison of Prices during the Civil War and Present War," issued by Price Section, Division of Planning and Statistics, War Industries Board, November, 1918, page. 2.

the effective utilization of those products. A drastic reorganization of the industrial system is involved. In the course of this, bankruptcies must be averted and demoralization prevented. As a necessary part of this process, governments must borrow and banks must lend. Taxes must also be applied. But the solution of our problem is advanced very little by such heavy overemphasis as we have had by writers like Professor Nicholson in England on the one element of expanding bank credit connected with government loans.

HERMANN F. ARENS.—With reference to Professor Fisher's paper, I suggest the following plan: Take the sum of wholesale prices of selected commodities averaged according to their relative importance in trade and use this sum as a standard of value. If the price of these same goods should rise above this amount, bonds might be issued for currency and the proceeds retired from active circulation until its value as measured in commodities rises again to a point which would justify a reissue of this currency.

At the request of a representative of the Chilean government, I submitted such a plan for the stabilizing of the Chilean peso.

IRVING FISHER.—To this plan there are two objections: One is that the plan involves placing in the hands of some government official or officials the determination as to when and in what quantity currency shall be issued or withdrawn, and that discretion would be very liable to abuse. The second objection is that it runs contrary to popular prejudice, because all business people are convinced that there must be a gold base for any regulating plan, and they would be afraid to depart entirely from gold. My method is a concession to this prejudice in favor of hard money or a metallic base.

HERMANN F. ARENS.—I admit the second objection, but, in regard to the first, should say that there might be an arrangement for issuing or retiring currency at a prescribed rate in accordance with the fluctuations of the commodity index, thus taking away from government officials all discretion as to issuing currency or the amount of such issue. This plan I believe to be scientific, though some may contend that it is too radical and might do unnecessary violence to popular prejudice.

WILFORD I. KING.—Dr. Anderson advances three principal points of criticism of Professor Fisher's proposed plan, each of which points seems, to my mind, to be of doubtful validity. He first contends that

any successful plan of stabilization must be international in its scope. He states that action by our government alone will result in such wide fluctuations in foreign exchange that commerce will be seriously hampered thereby. The obvious answer to this criticism is given by the enormous increase in our foreign trade taking place since 1914, despite the violent fluctuations in foreign exchange. Doubtless fluctuation does make possible speculation in exchange, but such speculation probably paralyzes international trade to about the same degree that dealing in wheat futures prevents commerce in wheat. This argument seems merely to be a subterfuge intended to indefinitely postpone currency stabilization by relegating it to the realm in which any favorable action is highly improbable.

Dr. Anderson next asserts that the proposed adjustments must necessarily be so small that they can, at best, only prevent minor fluctuations, and that they can, therefore, avail nothing in stopping great price movements like those of the last four years. Does it not, however, seem safe to assume that legislation for stabilizing the dollar will be accompanied by measures broad enough to include provisions which will prevent a repetition of such orgies of inflation as have characterized the past four years? But even should such elementary precautions not be taken, is there any reason why adjustments should not be made often enough and large enough to care for changes comparable even to those of the war period just passed?

Dr. Anderson's third contention is that any such large or frequent adjustments will make possible a process of speculation in gold which will enable the speculator always to win at the expense of the federal government. If such a "certain to win and can't possibly lose" system ever comes into being, let us hope that all present will be on hand to participate in the profits. But "sure things" in the speculative field materialize all too rarely and it seems to me very doubtful indeed that even this plan may not develop the same unforeseen defects that have, in the past, proved so unfortunately common in schemes similarly guaranteed to bring universal success. I should personally wish to have the method of such a speculative plan described in very considerable detail before I invested my entire savings in the enterprise.

O. C. Lockhart.—It should be noted that Professor Fisher and Dr. Anderson proceed from radically different points of view in their discussion of the present price level. Dr. Anderson finds the principal cause in the scarcity of goods, while Professor Fisher holds rather to

the view that the enormous expansion of our circulating medium is the primary cause. Hence the difference in their conception of the importance of stabilizing the dollar.

To one who stresses the influence of the scarcity of goods on the present price level, the classical justification of high prices comes naturally. During war it is of course highly important both to stimulate the production of articles needed for war purposes and to secure economy in private consumption. From the point of view of those who regard the currency situation as the chief factor in the price level, however, this justification of high prices cannot be pressed too far without danger of at least appearing to encourage inflation. In point of fact, inflated prices have been acquiesced in, if not urged, in some quarters because of their supposed effect on economy. But it must not be overlooked that the reaction of stimulated production and high cost of living on employment and wages tends to defeat this economy in private consumption.

It is therefore important to hold the rise of prices and wages within moderate limits. Only thus can we avoid the psychological influence of high wages in encouraging lavish expenditure, and only thus can we secure an equitable distribution of articles of necessary consumption among all classes. It seems reasonably clear that the government's laudable effort to avoid disturbance of the money market through the use of the anticipatory certificates of indebtedness was made without clear recognition of its effect upon the circulating medium, and that the taxation policy did not hold in view the need for repressing unnecessary consumption.

THE AGRICULTURAL LADDER

By W. J. Spillman

Associate Editor of the Farm Journal

The first rung of the agricultural ladder is represented by the period during which the embryo farmer is learning the rudiments of his trade. In the majority of cases this period is spent as an unpaid laborer on the home farm.

The hired man stands on the second rung, the tenant on the third, while the farm owner has attained the fourth or final rung of the ladder. This paper deals with the rate at which men climb this ladder, and the means used in making the ascent. We shall find that many men are able to skip some of the stages above enumerated. There are also various intermediate stages. Thus the hired man may assume some of the responsibilities of management and receive part or all of his pay as a portion of the proceeds. Under this arrangement he usually makes a larger income than a mere hired man, but less than a full tenant. Some men pass from the stage of hired man or from that of tenant to the position of hired manager, but these are relatively few. The stage of owner is usually divisible into two periods, the first being the early period when there is still a mortgage on the farm. Mortgages may, of course, persist indefinitely, but in the later stages of ownership mortgages frequently represent obligations incurred in extending the holdings of the farmer.

Table I shows the stages passed by 2112 present farm owners in the states of Illinois, Iowa, Kansas, Nebraska, and Minnesota.[1] Twenty per cent of the number climbed the entire ladder, omitting none of the steps. Thirteen per cent skipped the tenant stage, 32 per cent the hired-man stage, and 34 per cent passed directly to ownership from their fathers' farms, omitting both the stages of hired man and tenant. Later it will be seen that a large proportion of this last group inherited their farms, or bought them from near relatives who presumably allowed very easy terms of payment.

Table II shows the methods by which the men in these various groups acquired ownership. Taking all the groups together, it is

[1] The data on which this paper is based were collected by Mr. H. H. Clark, of the Office of Farm Management, under the joint direction of Mr. E. H. Thomson and the writer.

TABLE I.—STAGES PASSED BY 2112 MIDWESTERN FARM OWNERS IN ACQUIRING OWNERSHIP

Groups*	Number	Per cent
FHTO	435	20
FHO	268	13
FTO	679	32
FO	730	34

*F = unpaid laborer on the home farm.
H = hired man. T = tenant.
O = owner.

to be noted that just two thirds of these men acquired their farms by purchase, the other third mainly by inheritance, while 7 per cent of the entire number married their farms. A few obtained them by homesteading, but these are old men; the younger generation can no longer obtain farms in this manner, at least in the region in which these studies were made.

TABLE II.—PERCENTAGE OF FARMERS ACQUIRING OWNERSHIP BY DIFFERENT METHODS. (*For meaning of symbols, see Tabl I.*)

Groups	Homestead-ing	Mar-riage	Inher-itance	Purchase from near relatives	From others	Total pur-chasing
FHTO	1	9	1	12	77	89
FHO*	4	28	7	6	55	61
FTO	1	5	23	30	41	71
FO	3	4	47	30	16	46

* The percentages in this line apply to Ill., Iowa, Kan., and Nebr. only, the Minn. owners being omitted for reasons stated in the text.

Table III shows the average age at which the men in these four groups left their fathers' farms. Referring again to Table II, it will be seen that the percentage of men who inherit their farms rises rapidly as the length of time they spend on the home farm increases. This is undoubtedly due to the larger size of farms on which those men who remained longest at home were brought up. Not only was there room for them on the home farm, but there was also land enough to furnish many of them homes as their share of the estate. The young fellows brought up on small farms left home early, and made their way to the top of the ladder by the more laborious method of climbing from step to step.

Not only is the percentage of inheritance larger the longer the

men remain on the home farm, but the proportion of those who buy from near relatives increases in like manner. The group who skipped the tenant stage are of special interest. Of the 268 men in this group, 160, or 60 per cent of them, own farms in the state of Minnesota. One hundred and thirty-one of this number bought their farms from others than near relatives. This was because land was cheap in that state at the time these men were acquiring their farms. For this reason the Minnesota men are omitted from this group in Table II. In the other four states 28 per cent of this group obtained their farms by marriage, 4 per cent by homesteading, and 7 per cent by inheritance. This group is thus made up quite largely of men who did not acquire ownership by purchase. Otherwise most of them would have been compelled to pass through the stage of tenant.

Table III shows the length of the various stages and the average age at which the men in each group acquired ownership. Those

TABLE III.—AVERAGE LENGTH OF STAGES. (*For meaning of symbols, see Table I.*)

Groups	F Yrs.	H Yrs.	T Yrs.	Total* Yrs.	O** Yrs.
1. FHTO	19	7	10	36	13
2. FHO	19	10	—	29	20
3. FTO	23	—	9	33	11
4. FO	26½	—	—	26½	17

* Age at ownership.
** Years since ownership was acquired.

who left their fathers' farms to become hired men did so at an average age of 19 years. This applies to both groups 1 and 2. Group 3 were brought up on larger farms, remained at home four years longer, and were thus enabled to skip the hired-man stage. Their fathers set them up as tenants as a reward for their services on the home farm. Group 4 consists for the most part of men brought up on still larger farms. They remained at home till on the average they were 26½ years old. We have already seen (Table II) that most of these men either inherited their farms or bought them on easy terms from their fathers or other near relatives.

Group 1 spent an average of 7 years as hired men and 10 years as tenants before acquiring ownership, which they did at an average age of 36 years. In general, the longer these men remained on the home farm, the earlier the age at which they acquired ownership. This is an argument in favor of farms of considerable

size. The young men on such farms are less liable to have to pass through the stages of hired man and tenant.

It is worthy of note that class 2 is made up largely of men who acquired their farms a long time ago (20 years on the average).

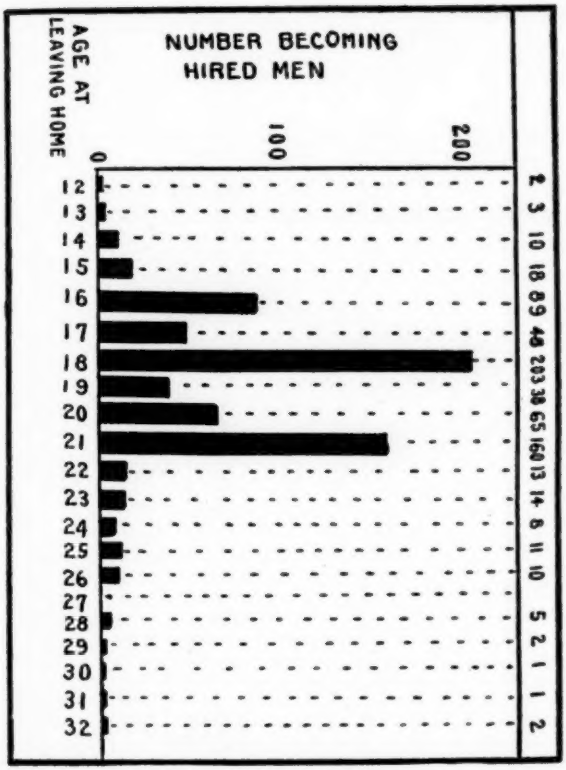


FIG. 1. Groups FHTO and FHO, 703 individuals. Age at leaving the home farm, average 19.1 years.

In a less degree this is true of class 4; while classes 1 and 3 consist more largely of men who acquired their farms more recently. These last-mentioned classes both involve the stage of tenancy. It would thus appear that it is becoming more and more difficult to acquire farms without passing through the tenant stage.

We have seen that the average age at which young men left home to become hired men on the farm was 19. The facts are given in more detail in Figure 1. The largest number left home at the age of 18. Next in order are 21 and 16 years, respectively.

Two started out at 12 years of age, while two others left the home farm when they were 32 years old.

While those who skipped the hired-man stage left home at an average age of 23, Figure 2 shows that by far the larger number

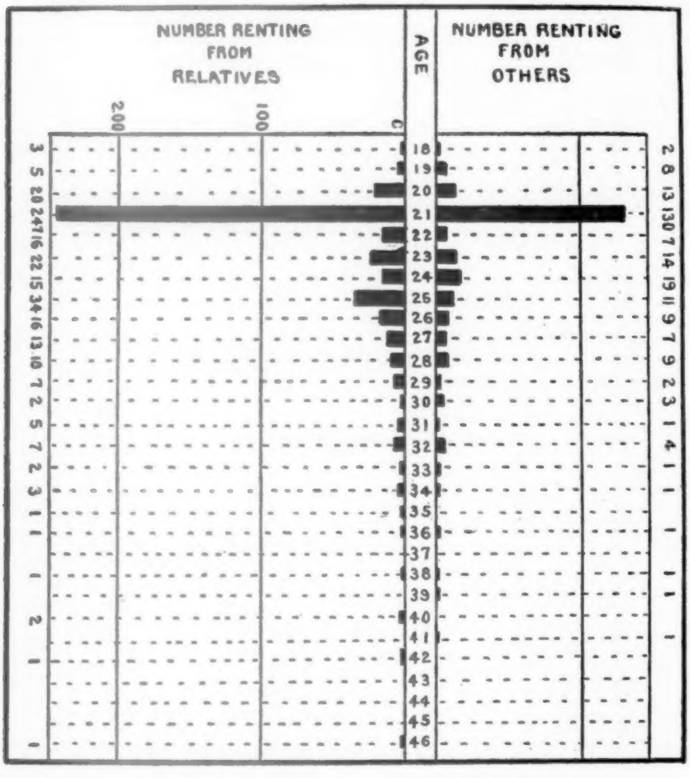


FIG. 2. Group FTO, 679 individuals. Age at becoming tenants, average 22.9 years.

of them started out at 21. The bars extending downwards in Figure 2 represent men who rented from their fathers or other near relatives; the bars extending upwards, those who rented from others.

Figure 3 shows the numbers of men who remained at home for various lengths of time and then went directly to ownership. The bars extending downward show numbers who obtained their farms without having to purchase them; those extending upwards, those

who purchased. In both cases the high numbers are from 21 to 30 years of age.

While the average length of the hired-man stage in the group that omitted none of the stages was 7 years, Figure 4 shows that

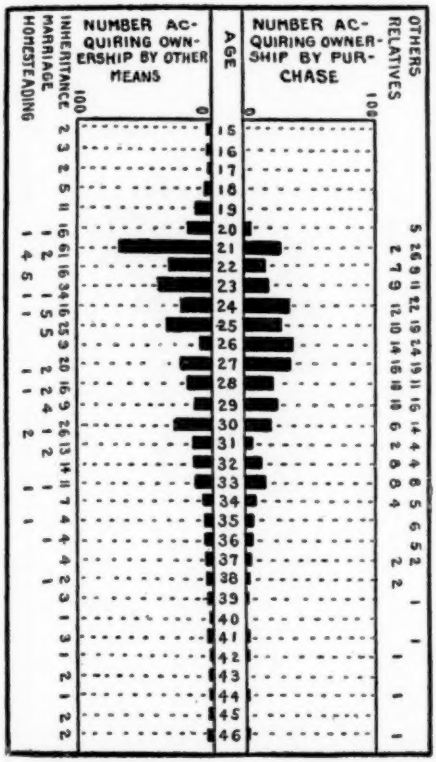


FIG. 3. Group FO, 30 individuals. Age at becoming owners, average 26.5 years.

the high numbers come at from 4 to 6 years. The average is raised by the stragglers who remained in this stage, in one case, as long as 28 years.

In this same group the average length of the tenant stage was 10 years; but Figure 5 shows that the high numbers come at from 4 to 10 years.

It would thus appear that the usual course of those farm owners who start out without capital is to work four to six years as

hired men, four to ten years as tenants, after which they make a first payment on a farm of their own. If this were a settled state of affairs in this country, we might well face the future with complacency. Tenancy would be confined mainly to young men who

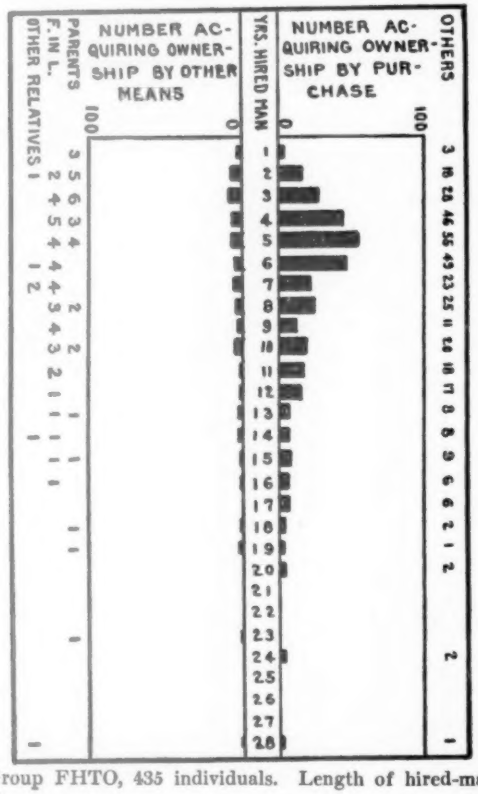


FIG. 4. Group FHTO, 435 individuals. Length of hired-man stage, average 7.4 years.

are just winning their way to ownership and the few incompetents and unfortunates who are unable to climb the ladder in the normal way.

But the price of land has been increasing at a rapid rate in recent years. As a result, the length of time a man must spend in the stages of hired man and tenant is increasing. In order to determine the extent of such increase, the men in group 1, who passed through all the stages, were divided into groups according to the decade in which they acquired ownership. Figure 6 shows

the effect on length of the hired-man stage. Those who acquired their farms 31 to 40 years ago spent an average of 5.2 years as hired men. The length of this stage increases gradually, until it becomes 7.9 years for the subgroup who acquired ownership

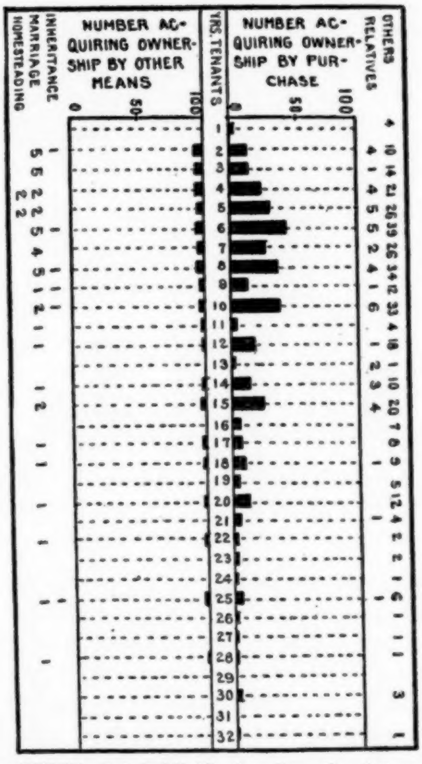


Fig. 5. Group FHTO, 435 inddividuals. Length of tenant stage, average 9.8 years.

during the decade ending with 1917. This is an increase of 52 per cent in three decades, an average of about 17 per cent to the decade. The rate of increase is slower, however, during the later periods.

Figure 7 shows the relation between date of acquiring ownership and of the tenant stage for this same group of men. For those who acquired their farms 31 to 40 years ago, the length of the tenant stage averages 4.9 years. Three decades later it had increased to 11.1 years, an increase of 127 per cent, or 42 per

cent per decade. But the rate of increase is also slower here in the last decade than in the two previous, being for the three periods respectively 2.3, 2.4, and 1.5 years. It would therefore appear that even under present conditions it is possible by good management, for the young man who must start out without capital, to pass through the various stages necessary to farm owner-

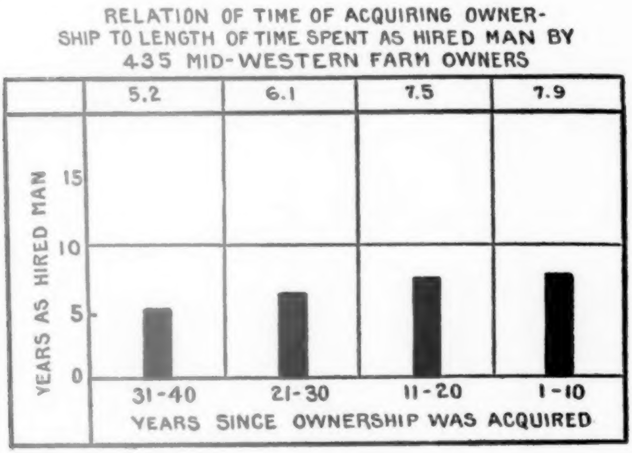


FIG. 6. Length of hired-man stage.

ship and acquire economic independence by the time his children are old enough for college. Whether this condition will continue will depend on several things, one of which is the price of farm land in the future. In Europe it is customary to state the price of farm land in terms of years' rental. Twenty-five years rent is considered a normal price for land. It would simplify matters if a similar custom were adopted in this country. The man who buys a farm on time would then know more of his prospects for final ownership without debt.

Governmental action in aiding young men to acquire farms is an important factor. Other nations, notably Denmark, have solved this problem. There is no fundamental reason why this country can not do the same thing. It is, however, beyond the province of this paper to pursue this phase of the subject. Nevertheless it behooves us as students of agricultural economics to consider carefully the entire subject of tenant farming in this country with a view to seeing that it occupies its proper status in a system in which ownership farming is the rule.

It would appear to be the part of wisdom for us to work for legislation intended to aid young men who have proven themselves as hired men to become tenants on good farms. Then when they have proven their ability as farm managers aid should be extended to them in buying farms. Such a plan would be in harmony with the normal processes by which farms are acquired.

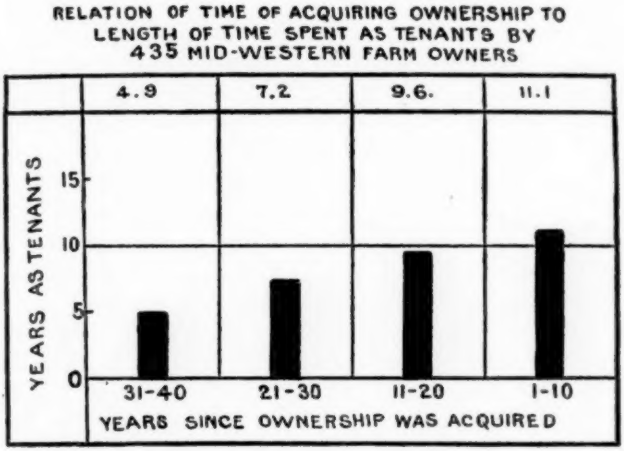


Fig. 7. Average length of tenant stage.

In helping tenants to buy farms it would be legitimate to limit the purchase price, say, to a specified number of years' rent. This would tend to prevent farm land from rising to such prices that men can not hope to pay for their farms during their working life. At least it would result in reducing tenancy to its normal status in those sections of the country in which the price of farm land is reasonable. It would also tend to reduce the price of land in sections where it is too high, for it would reduce the demand for such land.

TENANCY IN AN IDEAL SYSTEM OF LANDOWNERSHIP

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Part A

A strange misconception in regard to tenancy is current, and this has led, on the one hand, to unduly alarming prognostications, and, on the other hand, to proposed remedies which would produce ten times as much evil as they would cure. It has been even suggested that tenancy should be destroyed root and branch, but, if it were possible to succeed in this proposed destruction, the results would mean serious disaster and, indeed, widespread economic ruin. Tenancy may be a good, and it may be an evil; as we find it in the United States, it is partly a good and partly an evil. We cannot exercise any sound judgment in regard to tenancy, unless we have some standard of measurement—in other words, unless we have in our minds an ideal which it is desirable to approach. The purpose of this brief paper is to consider, then, some of the aspects of tenancy which are good, and to attempt to give some indications, at least, of the place which tenancy would occupy in an ideal system of landownership.

I

Tenancy is everywhere to be regarded as a goal for *some* farmers. There is a class of men, and one not altogether inconsiderable in number, who thrive best under the economic direction of another. In other words, there are men who are good farmers, as there are men who do well in other business enterprises, when they are guided by those who have the managerial ability which they themselves lack. Anyone who has carefully observed the experience of men about him will readily call to mind numerous illustrations. I myself have in mind a typical one. This was the case of a man who had many of the qualities of a merchant and had these qualities in high degree, but he was not an entrepreneur. He worked up to a position where he had an annual income of $7000, and this was at a time when an income of that amount would be equal to an income of $10,000 to $15,000 today. He was in a wholesale house in one of our great cities, and, had he been content to remain in this house, he would have died with at least a competence, say a quarter of a million dollars, probably being

taken into partnership in a small way. He had an ambition, however, to become an independent merchant and have his name appear leading a firm name. He tried it at the time that I have in mind, only to see his business go into the hands of a receiver. Before this last venture, he had tried to establish himself as a merchant in a small city. Every effort, however, proved a failure, as he simply did not have the managerial capacity for an independent undertaking.

It is very true that the difference in self-direction between a merchant as head of a great wholesale concern and the mercantile employee whom I have considered is far greater than the difference between the man cultivating his own farm and the tenant in our northern states. The tenant has a large measure of self-direction as a normal and regular thing. There are, however, many cases where he has helpful guidance, and this frequently amounts to more than he himself realizes. The hypothesis here is that as he has such guidance the owner is in close touch with the tenant, and is a man who has certain gifts or valuable experience in larger measure than the tenant. This is a frequent case. It is also a hypothesis that the landlord resides near the farm, because absentee landlordism fails at this critical point; and it may be said in general that absentee landlordism very generally in our country and elsewhere fails to meet the test of good landlordism. Even if it is not to be condemned absolutely, it is something which should be watched carefully in the public interest and should not be allowed to reach large dimensions.

Great estates coming down from generation to generation, like the Scully Estates in the Mississippi Valley, do not supply these conditions which make tenancy desirable for certain classes of men. This, however, is a separate subject, into which we cannot enter at the present time.

Tenancy as a goal suggests a resting place or termination of a career,—the achievement of tenancy. When it is the last step, it may come in a variety of ways, for example, as a result of the inheritance of a rented farm, as it frequently does in England and older countries, or it may come as an ascent from the condition of laborer, and thus be a rung upward on the agricultural ladder. But when a farmer remains a tenant, it by no means signifies that he is not making economic and social progress. A tenant may be a very well-to-do man, and in a prosperous region like southern Wisconsin the typical tenant may be quite as well off in economic

goods as the typical farmer cultivating his own farm in western New York forty or fifty years ago. Certainly he is more prosperous than the typical settler on his own land in many of the newer sections of the country. We will not discuss the prosperity of the tenant further in this connection. The general proposition is simply that for some farmers in all parts of the world, and especially in the older and more prosperous agricultural regions, tenancy is the proper goal or permanent resting place; for this results from a permanent differentiation of human qualities. I pass on now to my second related proposition.

II

Tenancy has a permanent place in an ideal system of ownership for large numbers in some places. The amount of tenancy desirable for those who fare best as permanent tenants will differ in different parts of the country. The number depends in part upon the kind of agriculture pursued, upon various conditions of time and place, and upon the economic stratification and racial composition of the population. Where there are wide differences in the capacity of various economic classes, tenancy will naturally have a large place, especially if the lower strata are somewhat deficient in economic qualities. The negroes of our South furnish an illustration. In some cases ownership of land by negroes leads to idleness, and in other places to wasteful culture. We have no statistical data that enable us to tell how large a proportion of the negroes would thrive best under the system of good landlordship. Perhaps it would not be possible to tell without more careful experimentation. If we should set out to do the very best we could for them, calling into coöperation with us their wisest leaders, I am inclined to think that at present at least one-half of the negroes would thrive best as tenants under wise direction, and probably more than one-half, taking the country as a whole. If this is the case, then a good land policy for our Southern States should be directed very largely to the development of good tenancy and good landlordship. Kindly and wise direction of the lower strata by those whose economic, intellectual, and social development has reached a higher plane is something that cannot be dispensed with if this world is to be a decent place to live in. But this by no means implies a policy of *laissez faire* and exclusive reliance upon individual benevolence. Experience has amply demonstrated the futility of *laissez-faire* individualism.

We need everywhere active boards of control for land just as much as for railways. So it must be remembered that a helpful state land commission is required along with any and every kind of land tenure. To this we return later.

For negroes and any other similar group, we should always keep open a broad way to success and encourage landownership just as fast as individual fitness for landownership is shown. The folly of wholesale attempts at transformation by legislation should have been demonstrated for all time by the results of giving all the negroes the ballot at the close of the war—something far different from what Lincoln had desired.

III

Tenancy is one means of transmission of landed property from one generation to another, and a very desirable means of transmission in suitable cases. Let us take the case of a father of a family with a farm of 320 acres in the fertile Mississippi Valley. He has three sons and one daughter. The farm is entirely paid for, is provided with good buildings, and the farmer has a handsome balance in the bank. Two sons have received a professional education and have got started in life, one as a physician, the other as a lawyer. One son stays on the farm and the daughter marries a promising young farmer, blessed in everything except money. As the father grows older, he decides to divide the farm into two parts. The daughter's husband takes over one quarter section and the son takes over one quarter section, both of them nominally tenants. The father moves to a nearby village and finds occupation suitable to his declining physical strength on the two farms, helping especially in harvest time, but at other times giving such wise direction as may be desired. Upon his death, the farms pass to the son and daughter, while the two professional sons have already gained, or are rapidly gaining, a competence. This is a very frequent case and accounts for a very considerable proportion of tenancy. Tenancy, in other words, is frequently a family arrangement which corresponds to difference in age groups and to concrete conditions. This is the situation found in every part of the United States and a situation found also in foreign countries. I recall coming upon it as typical in my investigations in Bavaria.

Studies have been made of this situation by Messrs. Eugene Merritt and K. L. Hatch, and the results of this investigation are

published in a bulletin entitled, "Some Economic Factors Which Influence Rural Education in Wisconsin." From it we take the following data for Iowa County, Wisconsin.

Of all farmers in the county, married less than 10 years, 40 per cent are tenants; married between 10 and 20 years, 15 per cent are tenants; married over 20 years, 8 per cent are tenants. Of 434 tenants studied with respect to years of tenure, 173 had the same name as the owner. It is, of course, highly probable that a considerable number of the remaining 259 were related to the owner through marriage.

Of the 259, 206, or 80 per cent, had occupied the farm they were on at census date 3 years or less.

Of the first class, 84, or 48 per cent, had occupied the farm 3 years or less. It is evident from above and other collateral data that for Iowa County tenancy—in a very large measure—is a stage in the development of ownership.

I do not present these statistics as indicative of what happens in the United States generally. They give facts in regard to one county in Wisconsin, and I believe they could be duplicated in many other counties in Wisconsin and elsewhere. We need in this particular, as in so many others, far more extensive investigations than have as yet been made, and far better than most of those that have thus far been undertaken.

Undoubtedly there are many cases of farmers who to their own injury retire too early, but even in an ideal system a very considerable percentage of farms would be operated by tenants, who through tenancy represent a stage in the transference of property from generation to generation. Let us suppose that a man begins work as a tenant on his father's farm at 22, inherits the farm at 32, retires at 62, and dies at 72. Then during the period of fifty years of ownership, one-fifth of the time this man was a tenant, three-fifths a farmer tilling his own acres, and one-fifth a landlord, possibly his son-in-law being the tenant. Two-fifths or 40 per cent of the time the farm has been in a state of tenancy.

It naturally follows from the above that as a new country comes to be an old country there will normally be an increase in tenancy. I have found parts of Upper Wisconsin where settlement is still recent and where the people boast that there is practically no tenancy. The settlers are so recent that tenancy has not come into existence as a method of transferring property from generation to generation. As a country grows older, and particu-

larly as a country becomes more prosperous, tenancy will increase, because the older generation will be engaged in the "retreat" from the farm, to use Professor Galpin's felicitous phrase. There are also other reasons why, even if the conditions of landownership are quite as good as the present, there will be an increase in tenancy. These other reasons are mentioned in the present paper.

IV

Tenancy is also a good thing when it represents a rung in the agricultural ladder and means a step upwards in the winning of a competency. Sometimes and frequently a man begins as an agricultural laborer, saves money enough to become a tenant, then through tenancy acquires enough to purchase a farm, gives back a mortgage and gradually pays for this mortgage. Familiar statistics showing age groups of farmers, show how largely tenancies form a rung on the agricultural ladder. Professor Spillman, who is on the program with me, has made various investigations which clearly reveal the upward movement of farmers as their age increases. A recent study of 2112 farm owners shows that nearly three-quarters of them have been hired men or tenants before they acquired farms. The farmers who mounted the agricultural ladder beginning as agricultural laborers, and passing through the stage of tenancy, became owners at the average age of 36½, while those who skipped the tenant stage became owners at the average age of 29. Over three-fourths of the farmers under 25 years of age are tenants; but among the farmers 35 to 45 years of age, only about one-third are tenants. Among farmers 55 to 65 years of age, only about one-fifth are tenants. This is a large subject, by itself, and the figures given are merely illustrative. I expect that my associate, Professor Spillman, will discuss this topic adequately.

We shall not have good agriculture unless our policies are framed with respect to the existence of the three classes—laborers, tenants, and landowners—in due proportion. Any plan for the future which overlooks the three classes is to that extent defective.

Is there any way whereby a man starting with nothing can acquire a valuable farm without toil and without abstinence involved in the accumulation of wealth, unless the property is taken from others and handed over to him, which in the absence of gift or inheritance means that he has acquired wrongfully and at the expense of others his farm? Statistical data as we have just

seen show that men become farm owners at increasing age. This may be an evil, and it may not be an evil. When we say that a man has acquired a farm, what do we mean? It may be that he has acquired a value of $1000 and it may be a value of $10,000. It may be that a man at the age of 45 has acquired a farm debt-free, and another man at the age of 35 has acquired a farm debt-free, both of them beginning their efforts to acquire a farm at the age of 25. Let us suppose that the farm acquired by the man at the age of 45 is worth $30,000, and that the farm acquired by the man at the age of 35 is worth $10,000. The man who acquires this farm at the age of 35 has got ahead at the rate of $1000 a year. The man who has acquired the farm at the age of 45 has gained $1500 a year, and has made the more rapid progress in wealth accumulation. Whether or not, from the point of view of general economic well-being and a desirable social order, he is better off or worse off cannot be stated absolutely and unconditionally; and here and now we have not time to discuss all the individual and social interests involved. It is not the prize at the end of a struggle that is always a chief reward, but the struggle itself, and the life during the period of the struggle. I remember well the case of a family in Langlade County, Wisconsin, that had moved into the county in early days and had acquired a farm competence. The aged wife of the settler looked back with joy upon the early life in the community when the privations were great, and her face glowed as she spoke about the joys of the days of successful struggle. Those seemed to her better days than the present days of prosperity with the early goal achieved and the husband dead. As Robert Louis Stevenson said, "To travel hopefully is a better thing than to arrive, and the true success is to labour." There are those who seem to think that anyone desiring a valuable farm should have it and at once become an independent farmer. If this is not said in so many words, it is certainly the implication of much loose talk that we hear; yet no one expects that every man employed in a bank is to become a large stockholder at an early age, and still less is it considered a grievance because everyone in a banking business does not have a bank of his own. The analogy is not perfect because it is at once admitted that we desire a large number of independent farm owners, and that for social and political reasons quite as much as for economic reasons. The economic reasons are not decisive, as we may see in England, where we have good cultivation of the land under almost universal tenancy, where even with good agri-

culture social and political evils manifest themselves as a result of the too small number of independent landowners.

In the kind of world in which we live, it is not an evil that a man should be obliged to struggle for a competence, and that it should take years for one starting at the foot of the ladder to climb to the top. Sudden accumulations are bad for us, generally speaking, as they bring to the surface and develop certain weaknesses of human nature.

Here again we come to the proposition that as the country grows older tenancy will increase normally and regularly, which is not necessarily a bad condition.

V

In an ideal system of landownership we shall have a very considerable percentage of the land area, both urban and rural, in public ownership. Public ownership is everywhere increasing today. So far as we now know, for a greater proportion of the land, private ownership is better; but even so, there are various reasons why a larger proportion of the land should be in public ownership than is the case at present. We have already a large area of school lands in public ownership, to say nothing about the lands of the open range, and perhaps these to a very considerable extent should remain in public ownership. It is generally conceded that forest lands where they exist in large areas should be publicly owned and administered.

The public ownership of considerable areas of land, both in city and country, is desirable. Absolute definite proportions of land to be publicly owned cannot be determined: everything depends upon conditions of time and place.

As a matter of fact, we can scarcely take a step in the fruitful discussion of land policies unless we first classify the land, for what holds with regard to one class of land does not hold with regard to another class of land. Let us take up the subject of mineral resources. I think economists are very generally agreed that the mineral treasures of the earth should be publicly owned. I mean by this that if we had to do with a new country, the economists would, in my opinion, by an overwhelming majority be in favor of reserving all of the mineral rights as public property. As a matter of fact, this is coming to be the established policy in our own country, as well as in other countries. I think that the economists will very generally favor measures calculated to bring all undiscovered mineral treasures into public ownership, so far

as this may be done without undue cost and without confiscation. I believe economists very generally are in favor of the public ownership of shore lands of real significance, and of all pieces of lands which have peculiar strategic significance.

A good deal of land in the German cities, notably Frankfort-on-the-Main and Ulm on the Danube, is owned by the cities, and that has beneficial effects. Public ownership of dwelling sites makes possible arrangements whereby dwellers in the cities can acquire homes and a freehold, provided, of course, the city is always buying land, as well as selling land. The ownership of forests about cities, as in the case of Frankfort and in the case of Heidelberg, is desirable. Certain illustrations in our own country—for example, Lynn, Massachusetts—may be instanced. The public ownership of land along water courses and about reservoirs, furnishing urban water supplies, is very desirable. Baltimore serves as an illustration, although the municipal ownership there has not been carried so far as is desirable. Sometimes public ownership involves tenancy, sometimes direct management.

Illustrations of desirable permanent public ownership with various forms of tenancy are afforded by the national forests and the open range in the Far West. Certain lands strategically situated, like the banks of streams and the land surrounding the water holes in the West, may be instanced as illustrations. When we have anything like an ideal system of landownership in the West, it will mean a good deal of public ownership and a good deal of public tenancy.

Tenancy will play a very considerable rôle with respect to the lands which are in public ownership. The nation, state, or city, as the case may be, will very properly seek to gain an income from these publicly owned lands; otherwise their tenants will be a favored class. At the same time, where we have public ownership, there should be an attempt to develop a satisfactory system of tenancy which will help men upwards. There is considerable room here for legitimate experimentation.

In fact, it is suggested as desirable that our various states should acquire land, where they do not now own it, and should establish model systems of tenancy, conducting various experiments to discover the best kinds of tenancy. It is just as legitimate to have model tenant farms as it is to have model experimental farms, devoted to trials of different kinds of seed and different methods of agriculture. The state with a good system of administration is in a better position than an individual to try

experiments in tenancy. The state also can have an influence out of all proportion to the area of land it lets to tenants in establishing models for landowners to follow. An illustration can be given from the City and Suburban Homes Company, of New York City. This company has a capital of only six or seven millions, which is not large in New York City, and yet it has been able to exercise an appreciable influence upon tenancy in that city. It does the best it can for the tenants with a rate of 4 to 5 per cent on money invested, and has forced the private owners of tenements to establish better conditions in order to secure good tenants.

We may lay it down as a general rule that *the higher the grade of the public service, the larger the admissable percentage of tenancy.*

VI

In an ideal system of landownership, tenancy will be regulated. The regulation of tenancy is a world-wide phenomenon and is increasing in civilized countries. We have here to do with a public interest. If there is such a thing as a *public utility,* we may say that it is *the land.* While we have much good tenancy in this country, and while the evils of tenancy in the United States have been grossly exaggerated, unquestionably we do have a great deal of tenancy which is far from what it should be, resulting in human loss, as well as loss in material well-being.

Short tenancies particularly are undesirable. The tenant must have a real interest in the improvement of the land, as well as a real interest in the community in which he lives. Older countries have been obliged to make provision for payment to the tenant for the unexhausted improvements of the soil which are due to his effort, and also a payment for disturbance of his tenancy. In Scotland and Ireland rents are regulated, and doubtless will be in England. We have here many very difficult problems. There is a tendency for good tenancy to ripen into dual ownership of the land. This was the case in Ireland and has resulted in the purchase of the land by the government and its sale to the tenants under a long-time amortization plan.

VII

In an ideal system of landownership there will be an endeavor to create in the landowner a feeling that landownership carries

with it a social mission. Many have this feeling already; and any wide survey of the world's experience, coupled with a knowledge of human nature, will show that it is possible to develop this very greatly. In our economic life it is folly to suppose that we can ever get beyond a stage in our evolution where conscience will not be needed, and where part of our task will not be appeals to the individual conscience.

In an ideal system of landownership, landowners will try to build up those who are their tenants and will frequently be disposed to help those who are tenants to acquire ownership of the land occupied, selling one farm and purchasing another, in order in turn to help a tenant acquire ownership of this newly purchased farm. In other cases, however, the landowners will simply help the tenants as tenants, or, as frequently happens, will help them to acquire other farms.

In an ideal system, also, we shall have companies analogous to the City and Suburban Homes Company of New York, already mentioned, which will purchase and sell land in order to help men acquire landownership.

VIII

In an ideal system of landownership there surely will be a limited place for ownership of land by those who love the land and yet are not able to live on it. In some cases these owners will employ managers; in others, they will let their land to tenants. It is not desirable that the land should be generally held by those who use it as a plaything. Nevertheless, professional men may legitimately and without injury to society own land and enjoy the ownership. They may try experiments which poorer men could not try, and also they may use the land as an anchor to the windward, as something to fall back on in case of loss, or something for old age.

Those familiar with the Blue Grass region of Kentucky know that there are many beautiful farms there belonging to rich owners who cultivate them well and who, among other things, engage in the breeding of horses. Whether or not this promotes the general welfare of the community is an open question. It tends to raise wages, and if it raises them above a true economic level, it may in the long run be injurious to the wage earners, as well as to the other farm owners. We have many questions which in this connection require more careful consideration than they have ever received.

IX

We find in many parts of the world, but especially in England, those who prefer capitalistic farming without ownership of the land under the conditions of ownership which exist. Doubtless there are many parts of the United States where a man will make more money without ownership of the land than he will with ownership of the land, and this is due to conditions not easily remedied. It is doubtful if from the social and political point of view capitalistic farming without ownership of land is to be encouraged. Certainly it is not to be prohibited absolutely, as within narrow limits it may prove even beneficial. Should any general tendency develop toward a great extension of capitalistic farming without landownership, it would be in order to consider measures to check the tendency. Tenancy as a prevailing system for land utilization, either in city or country, is not desirable, even if the land is publicly owned. New Zealand has tried the leasehold system with public ownership of the land, and is gradually abandoning it for the freehold. As a clever French writer has well said, in New Zealand democracy in landownership has triumphed over socialism in landownership. As a universal system, public ownership of leased and rented land is practically impossible, as well as undesirable. The utilizers of the land, having great and irresistible political power, will inevitably make themselves virtual owners, and they may do this under such conditions that their annual payments for nominally rented land will be less than the taxes paid by the American owner of a freehold.

I well remember one of the reformers in New Zealand talking to me in the Capitol building at Wellington about the situation. He almost had tears in his eyes when he told me how they had put men on the land publicly owned, how they had made these men strong and prosperous, and how they had voted into power the present Massey Government, because the Massey Government had promised them the freehold. This is a natural evolution. After the freehold has been reached, then there begins an evolution, such as we see in this country, and such as we see elsewhere in the world, as a result of which the privately owned land is controlled socially and is made subservient to social well-being.

In Australia it is reported that with the aim of bringing about a socially desirable use of the land, and especially to prevent the growth of tenancy, land has in some cases been sold with limited and imperfect titles—"spotted titles," so called. These titles re-

strict the transfer of land to actual settlers. The general aim may be approved, while the method of achieving it may be found faulty. It is said that the "spotted titles" have proved objectionable in many cases. It is better to let the landownership develop into full ownership and then to exercise such control over its ownership as may be desirable by general laws imposed by land commissions. This is the method followed in Ireland, where transfers of land are controlled by the Irish Land Boards until the amortization payments are fully made.

X

A man as landowner and landlord may be a most useful citizen, even if he has several farms. If he is the right kind of landlord, some of his tenants will be developing into capable farmers and gradually acquire farms of their own, while others may remain, leading happy, useful, and honorable lives as tenants. The following is a history of three farms in Dane County, not far from Madison, Wisconsin.

The farms in question belong to the Honorable John S. Donald, and are located near Mount Horeb, in Dane County, Wisconsin. First, a word about the owner. Mr. Donald is of Scotch extraction, a native of Wisconsin, now in middle life. His popularity is shown in the fact that he has been four times elected to the state legislature and that he has been secretary of state in Wisconsin for four years. He has lived on or near his farms and kept in close touch with them until the last few months, when he has been in France in the service of the Y. M. C. A. Mr. Donald's farms have come to him from his father and mother; the latter is still living. The farms amount altogether to 640 acres, or a section of land. Originally there were four farms, but one of them has been divided up among the remaining three, and serves as pasture and meadow land for these three, for which an always-flowing stream especially fits it. The country where these farms are located is a preëminently good dairy country; and dairying is doubtless the most prominent feature of the farming on these farms, as it is in general in southern Wisconsin. Dairying is, however, not followed exclusively, but all-round farming is practiced. Calves, colts, and hogs are raised, and these consume all the feed raised on the farms. At one time there were 101 cows on the farms. Now each tenant has somewhere around 25.

The farms are let on the system of equal shares, or coöperation,

as the owner prefers to call it. A coöperative spirit is that which animates all concerned. Let us consider the tenants on the three farms.

On what is called the Donald Farm we find a tenant named Albert Kobbervig, a Norwegian whose wife is German. He began originally as a laborer, and therefore tenancy represents to him a rung upward on the agricultural ladder. He has five children, four boys and one girl. A boy born this year is named after the landlord, Donald. They speak English in the family, which is thoroughly Americanized.

Albert Kobbervig worked for wages for two years on this same farm. As a laborer he was furnished with house, milk, and garden. His wife took care of the poultry, that part of the farm being carried on on the coöperative plan, the produce being divided equally after the tenant had received the value of $10. After two years, Kobbervig became a tenant, but not having enough to pay for his half of the stock, Mr. Donald gave him time, and he gradually paid for it. The stock is blooded stock, and the horses are of the Percheron variety. Mr. Kobbervig is the first and only tenant on the farm and has now been there for fourteen years. He has half the stock and all the farm machinery paid for and money in the bank. He takes an interest in the affairs of the community, of which he is an honorable member, and apparently is contented where he is.

Alva Lust lives on what is called the Sweet Farm. He has been a tenant there for seven years. He began as a tenant, but without property, a brother furnishing him money with which to purchase his share of the equipment. This year he boasts a fine corn crop, which has filled his silo and left a surplusage of corn for his stock. He has cut four crops of alfalfa.

Matthew Marty, or Mat Marty, as he is generally called, is the third tenant, and occupies what is known as the Picture Rock Farm. He has been a tenant for two years, and his father was a tenant before him for eight years on this farm. It is said that he is doing even better than his father did before him, and his father could not have been a failure, otherwise he would not have been on the farm for eight years. Special mention is made of his fine herd of Holstein cows. To use his own words as reported to me, he is "doing fine."

All these tenants have automobiles; all have bank accounts and pay their bills by check. All the children go to school, and all

the families go to church and have a real, vital connection with the community. They are not outside of it, but of it.

Mr. Donald takes a real interest in the families and shows this in many ways, without being at all offensively patronizing. The boys of one of the families have some sheep which Mr. Donald gave to them. I have a picture of a wagon with a fine team. This wagon was taken as a prize at the County Fair. Mr. Donald drove back from the fair with the tenant, who had a half interest in the team that had taken the prize. When the tenant stopped at Mr. Donald's place, Mr. Donald told him to drive on,—that the wagon was his.

The owner of the land does not look upon himself at all as a philanthropist, but he believes that the coöperative plan is to his advantage as well as to that of the tenants. The tenants share this belief. Mr. Marty says: "I believe the equal-share system is the best system upon which to rent a farm, as it gives the renter a greater opportunity to make a profit one year after another. The landlord is more willing to do something for his tenant on this basis, while on the cash basis the landlord takes no interest whatever in his tenant as long as he is sure of his money."

The length of the lease is two years (provided, however, that the lease may be renewed indefinitely in case of mutual satisfaction), as the owner feels that one year is not long enough to give a fair trial to a man. In case of the dissolution of partnership, the tenant may divide the common property into two parts, letting Mr. Donald take his choice; or they may cast lots as to who is to have the first choice.

The lease is a very simple one, occupying only a little over two typewritten pages. The following paragraphs are illustrative and furnish the essential features of the agreement. The entire lease is appended.

The plan of renting is to be coöperative or on shares. The said party of the first part agrees to furnish the land, one-half of the horses, cattle, hogs, and seed; to pay the land tax and half of the live-stock tax, also to furnish wire for fences, if all available wire on the farm is in use; and to receive one-half of all moneys or profit derived from any product produced on the farm, or one-half of the produce not disposed of as his compensation.

For any stock or feed purchased for the farm, each party agrees to pay one-half. Fuel to be furnished from the farm, but waste and dead timber to be used before any of the living timber is cut, without the permission of the said party of the first part, and all brush to be piled and burned.

Provided the said party of the second part wishes to keep more poultry than is necessary for family use, each party agrees to furnish one-half of the breeding stock, and whatever income there is above ten dollars is to be divided equally between the parties of the first and second parts. If the income is not over ten dollars, the party of the second part is to have all.

The party of the second part is to have a garden, and what milk is needed for family use, but if any butter is made, each party is to receive one-half; also each party is to receive one-half of any cattle or hogs butchered, or to pay the other party market price for his share.

These tenant farmers seem to me as well off on the whole as the farmers who owned the farms they cultivated in western New York, where I lived as a boy, although they do not have the satisfaction of full ownership, and although there are advantages coming from full ownership to the community which do not come from tenancy.

In an ideal system, however, tenancy has to play several different and important rôles, as I have indicated. I cannot pretend at present to say what proportion of the farmers should be tenants in an ideal system, but I should think at least one-third. What we want to work toward is full ownership of land by the men who cultivate it as a dominant form of tenure, non-owners very generally working toward it as a goal, or owners having made way for others who are climbing the agricultural ladder. At the same time we remember that there are those who are apparently better off as tenants.

The promotion of ownership of land by men cultivating the land must be one of the great aims finding expression in the land policy of the modern state; and one of the purposes of a properly constituted land commission must be to aid farmers to become landowners.

I have here pictures of the farm homes and buildings.[1] These are better than the average buildings occupied by tenants; but they are not at all exceptional in Dane County, Wisconsin. They are the same kind of buildings occupied pretty generally by farm owners, and are typical of the best class of tenant buildings. When tenancy represents a stage in the transition of inherited property from one generation to another, tenants and farm owners occupy precisely the same kind of buildings. They do in the case of the Donald farms, although here tenancy is not a stage in the transmission of property.

[1] These were shown at the Richmond meeting.

XI

Finally, I emphasize what has already been mentioned, namely: in an ideal system of landownership we shall have land commissions which shall concern themselves with the land whether it is publicly or privately owned, treating the land to an increasing extent as a public utility. They will enforce the laws, which should, however, contain only general principles to be applied so as to meet concrete cases. They will make reports based upon careful knowledge, and enable us to proceed constructively, step by step, in the elaboration of sound land policies. They will safeguard private property in land by helping society to lessen its evils, and increasing its inestimable economic, social, and political benefits.

Part B

A Social Analysis of the Occupancy of 500 Farms in One Community

During the month of September, 1918, Miss Emily F. Hoag, assistant in Agricultural Economics, at the University of Wisconsin, made a farmstead to farmstead visit to 500 farm homes in Dane County, Wisconsin, obtaining a history of the occupancy of each farm during the ten-year period, 1909-18. The selection of this particular group of farms was made with the intent of including all the farms belonging in one business community—and no other farms. Fortunately a recent map of the county was available showing all the farm homes grouped together which regularly trade at any one business center. Sun Prairie, a vigorous village of some 1200 inhabitants, was chosen as the business and institutional center determining the particular community to be studied. All told, a population of about 3500 persons is involved in this community; and village churches, library, newspaper, banks, high school, serve both farmers and townsmen. From the social point of view, it will be important to bear in mind that the land-holding relations on these 500 farms are interwoven in one community fabric.

The main statistical facts of the study are presented herewith in table form, without, however, at this time any attempt to interpret them. That analyses similar to this in many parts of the United States will enable students of agricultural tenantry to think more clearly on the subject, goes without saying. And it

is the hope of the writer that rural social investigators in every state will begin a close examination of farm tenancy from the point of view of the human relations involved in each farmstead situation.

Occupancy of Farms

Relative number of farms occupied by owners and tenants.—While the total number of different farms in the Sun Prairie community during the ten-year period is 500, it is evident that, due to the occasional division of farms, and the shifting of land from one farm to another, the number of farms will tend to vary from year to year. A few tenants operate more than one farm at the same time.

TABLE I.—THE NUMBER OF FARMS OCCUPIED BY OWNERS AND TENANTS DURING THE TEN-YEAR PERIOD

	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909
Total Number of farms	493	491	485	479	476	475	472	466	465	463
Number farms occupied by owners	347	344	336	343	352	349	354	362	356	368
Number of farms occupied by tenants	146	147	149	136	124	126	118	104	109	95
Owner per cent	71—%	71—%	70—%	72—%	74—%	74—%	75%	78%	77—%	80—%
Tenant per cent	29+%	29+%	30+%	28+%	26+%	26+%	25%	22+%	23+%	20+%

Farms not leased during ten years	246
Farms leased all during ten-year period	42
Farms sometimes leased, sometimes not leased	212

It is a matter of some interest that 246 farms were constantly occupied by their owners; that 42 farms were constantly leased and might be classed as "tenant farms"; while 212 farms were in a state of oscillation between owner occupants and tenant occupants.

Tenants related and unrelated to the owners of the farms.—In estimating the advantages and disadvantages of the American system of tenancy, it has been urged of late that an analysis of all tenants in a community will show a certain rather constant proportion of the tenants to be related to the landlord. The above table, it is worth mentioning, confirms the contention that much tenancy is a *modus vivendi* of a near relative, as a procedure quite satisfactory to both parties, if not always in reality a step toward ownership wherein inheritance plays a distinct rôle.

TABLE II.—NUMBER OF FARMS OCCUPIED BY TENANTS RELATED TO THE OWNERS, AND BY TENANTS UNRELATED TO THE OWNERS

	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	Total
Number of farms occupied by tenants related to owners....	70	70	72	61	56	50	51	46	45	36	125
Number of farms occupied by tenants unrelated to owners	76	77	77	75	68	76	67	58	64	59	154
Per cent of related tenants.	47+%	47+%	48+%	44+%	45+%	39+%	43+%	44+%	40+%	37+%	
Per cent of unrelated tenants	53—%	53—%	52%	56—%	55—%	61%	57—%	56—%	60—%	63—%	

The degree of relationship in this table is almost invariably that of son or son-in-law. One case each of a nephew, of a brother, of a father-in-law, and of a cousin is included.

Nine farms were occupied continuously during the ten-year period by tenants related to the owners; 33 farms, by tenants unrelated to the owners. The total number of farms occupied by tenants related to the owners turns out to be 125; by tenants unrelated, 154; by tenants, some related and some unrelated, 25.

Farm Purchasers

The status of those who purchased and occupied farms in the community may be stated as follows:

Purchasers not formerly owners of farms—	
Tenants	
Sons buying home farm after renting it..............	32
Unrelated tenants buying farm after renting it........	4
Unrelated tenants buying other farms than those rented.	59
Non-Tenants	
Sons buying home farm..........................	16
Sons buying other than home farm..................	31
Coming from other occupations.....................	7
Formerly owners	65
Unknown	4
Total	218

The total number of transfers of title to farms in the Sun Prairie community during the ten-year period, was made up of 218 instances where the purchaser actually lived on the farm purchased, and a few cases only (less than a dozen) where the purchaser simply made an investment and did not live on the farm.

It will appeal to many as a rather curious fact that so few of the class of unrelated tenants, when buying farms, purchase the same farm which they have rented. On the other hand, it is quite as one would expect that sons should purchase the home farm after renting it.

The practice of a son's renting the home farm is evidently general; but it is offset by the more general practice of sons working at home for wages until able to buy a farm, whereupon, often with the father's help they purchase either the home farm or a neighboring farm.

It is worth noticing, as a piece of rural sagacity in the climb up the "agricultural ladder," that 79 sons who purchased farms kept close to the father as advisor or landlord, and presumably received the father's material backing when it came to purchase.

Two tenant farms owned by the same person have come to be known as "owner-producing farms": one of them produced from its tenants four owners in the ten-year period; the other, two owners since 1913. This is a case not only of a "good landlord," but one of good farms.

Status of Tenants

The present status of all who have been tenants in the ten-year period (part-owner-tenants excepted) is as follows:

Tenants	143
Owners outside community	16
Owners inside community	89
Retired	7
Other occupations	14
Unknown	58
Total	327

The total number of different tenants who leased any one of the 500 farms during the ten-year period is 327,—not counting, however, the "neighbor tenants," who as a matter of fact own adjoining farms, in addition to leasing.

Of the 105 tenants who climbed the "agricultural ladder" during the ten-year period and became owners, 16 purchased farms outside the community of Sun Prairie, and 89 purchased farms within the community.

The "retired" tenants are those who have ceased farming due to advanced age. Those tenants who entered "other occupations" are young men who left the farm for the town. Six of these, however, enlisted as soldiers. The tenants of "unknown" status in-

clude those who have moved out of the county, as well as those who have died.

Tenancy Helps Discover Size of Farm to be Purchased

It has been pointed out by economists that American tenancy affords an opportunity for the farmer to discover the size of farm best adapted to his capacity, before actually making an investment in land. With this thought in mind it will prove of some interest to look over the following table of twenty-six young tenant-farmers, unrelated to the owners of their tenant farms, who, during the ten-year period, became owners of farms. In each case the farm purchased is a totally different farm from the one previously leased.

TABLE III.—TENANTS WHO BECOME OWNERS, SHOWING RELATIVE SIZES OF FARMS RENTED AND PURCHASED

Tenants	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909
1	O-120	O-120	O-120	O-120	T-105	T-105	T-105	T-105	T-105	
2	O- 77	O- 77	O- 77	O- 77	O- 77	O- 77	T-160	T-160	T-160	T-160
3	O-160	O-160	O-160	O-160	T-180	T-180	T-180	T-180	T-180	T-160
4	O-140	O-140	O-140	T-118	T-160					
5	O-17½	O-17½	O-17½	O-17½	O-17½	T-118	T-118			
6	O-120	O-120	O-120	O-120	O-120	T- 80	T- 80	T- 80	T- 80	T- 80
7	O- 93	O- 93	T- 80							
8	O- 80	O- 80	O- 80	O- 80	O- 80	O- 80	O- 80	T-97½	T-97½	T-97½
9	O-100	O-100	O-100	O-100	O-100	O-100	O-100	O-100	O-100	T-155
10	O- 80	O- 80	T- 30 (Tob)	T- 30 (Tob)	T- 30 (Tob)	T- 80				
11	O- 77	T- 20 (Tob)	T- 20 (Tob)	T-185	T-185					
12	O-81½	T- 80	T- 80	T- 80	T- 80	T- 80	T- 80	T-18½ (Tob)	T-Tob	
13	O- 85	O- 85	O- 85	O- 85	O-130	T- 80	T- 80	T- 80	T- 80	T- 80
14	O-100	O-100	T-100	T-100	T-100					
15	(O-38½ (T-120	T-160	T-160	T-160	T-160	T-160	T-160	T-160	T-160	T-160
16	O- 80	O- 80	O- 80	O- 80	O- 80	T-100				
17	O- 80	O- 80	O- 80	O- 80	O- 80	O- 80	O- 80	T-120	T-120	T-203
18	O- 80	O- 80	T- 40	T- 40	T- 40	T- 40	T- 40	T- 40	T- 40	T- 40
19	O- 80	O- 80	O- 80	O- 80	T- 60	No r	cord	T- 60	T- 60	T- 60
20	O- 40	O- 40	O- 40	O- 40	O- 40	O- 40	O- 40	O- 40	T-120	T-107
21	O- 96	O- 96	O- 96	O- 96	O- 96	O- 96	O- 96	O- 96	T-200	T-200
22	O- 80	O- 80	O- 80	O- 80	O- 80	O- 80	O- 80	O- 80	O- 80	T-105
23	O- 20	O- 20	O- 20	At hc	ne on f farm	ther's	T- 60	T- 60	T-180	
24	O-120	O-120	O-120	O-120	O-120	T- 80	T- 80	T- 80	T- 80	T- 80
25	O- 72	O- 72	O- 72	T-100						
26	O- 40	O- 40	T- 80	T- 80	T- 80	T- 80	T- 80			

O-120 = Owns 120 acres.
T-105 = Leases 105 acres.
(Tob) = Tobacco farm.

Retreat of Farm-Owners, Commonly Known as Retiring from Farming

The number of farm-owners on the 500 farms who started their retreat (retirement) from farming during the ten-year period was 124. Advancing age came to some farmers unannounced and suddenly, and retirement was forced at once. In other cases the sag in strength was gradual and retreat took place inch by inch. The fighting spirit seems to cling to the land and to work as long as possible.

This constant social phenomenon of retreating old age seems to have a fixed relationship to the advance of youth upon the land and to the "climbing of the agricultural ladder." The following tables are presented because of the possible light upon the whole tenancy problem thrown by such constant social phenomena as the familiar instance of the retired farmer.

The "retreat" of farm owners—commonly known as retiring from farming—of the 500 farms composing this study may be shown as follows:

All those retiring—		
Ownership		
Still owning some farm	78	
Not owning any farm now	46	
Total		124
Residence		
Living on some farm	71	
Living in town	46	
Moved out of county	7	
Total		124
Employment		
Still actively farming	20	
Overseeing or helping	41	
Tenant or hired man	7	
With other employment	23	
With no employment	33	
Total		124
Status of those living in town		
Managing farm	4	
With other employment	14	
With no employment	28	
Total		46
Men	101	
Women	23	
Total		124

Those still owning some farm—		
Residence		
Living on own farm	61	
Living in town	16	
Moved out of county	1	
Total		78
Employment		
Still actively farming	20	
Overseeing or helping	37	
With other employment	7	
With no employment	14	
Total		78
Status of those living on own farm		
Working on own farm	20	
Living with son-tenant	25	
Living with relative tenant	2	
Living with unrelated tenant	5	
Living with neighbor tenant	11	
Total		61
Those not owning any farm now—		
Residence		
Living on some farm	10	
Living in town	30	
Moved out of county	6	
Total		46
Employment		
Overseeing or helping	4	
With other employment	16	
Tenant or hired man	7	
With no employment	19	
Total		46
Status of those living on farms		
Living with son-owner	3	
Tenants	6	
Hired man	1	
Total		10
Women owners retreating—		
Ownership		
Still owning original farm	18	
Sold original farm	5	
Total		23
Residence		
Living on farm	17	
Living in town	6	
Total		23

Still owning; living on farm	16	
Still owning; living in town	2	
Sold farm; living on farm	1	
Sold farm; living in town	4	
Total		23

Status of those living on farms

Still owning; living with son-tenant	8	
Still owning; living with unrelated tenant	2	
Still owning; living with neighbor tenant	6	
Sold farm; living with son-owner	1	
Total		17

TABLE IV.—RETREAT OF FARM OWNERS FROM FARMING ON THEIR ORIGINAL FARMS, SHOWING STEPS IN THE RETREAT DURING THE TEN-YEAR PERIOD

Original farms as held by tenants, by purchasers, and by original owners

	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909
Held by Tenants										
By son managing	38	34	31	29	27	24	18	14	12	3
By relative managing	3	3	3	2	1	1	1	0	0	0
By unrelated tenant managing	10	11	13	13	12	10	9	7	5	3
By neighbor managing	9	10	5	6	4	4	4	2	3	2
Held by Purchasers										
By son managing	14	12	12	9	6	5	5	2	1	0
By relative managing	0	1	0	0	0	1	1	1	1	0
By unrelated person managing, formerly tenant somewhere	13	15	13	10	12	12	9	4	2	1
By unrelated person managing, formerly owner somewhere	14	11	11	11	9	10	9	3	0	0
By unrelated person managing, from other employment	1	0	0	0	0	0	0	0	0	0
By unrelated person managing, formerly neighbor	1	0	0	0	0	0	0	0	0	0
By unrelated person managing, young man on first farm	9	9	4	5	5	1	0	0	0	0
Held by Original Owners										
By owner returned	4	3	2	2	1	1	0	0	0	0
By owner	0	8	24	32	41	46	58	79	87	96

Original farms as held by tenants or purchasers.—Evidently in any considerable community there will be found, in any one year, farmers just starting their retreat from farming, farmers well along in their retreat, and farmers whose retreat may be said to be completed. In the community of Sun Prairie are many farmers still living whose retreat was either complete or in process prior to 1909. These farmers do not appear, and are not considered, in the present study. Only those farmers are entered in the tables who started their retreat some time during the ten-year

period. All of these are considered, whether they finish their retreat within the period or not.

The foregoing table tells the story, year by year, of how many of the original farms had been let slip out of the working grasp of the farm-owners under consideration into the hands of tenants or purchasers.

In 1909, only 8 farm-owners began their retreat. They started the retreat by letting their farms to tenants. In 1910 (including those farmers that began to retreat in 1909 whose farms are still held by tenants in 1910), 18 farm-owners are in full retreat by letting their farms to tenants, while 3 farm-owners began their retreat by selling their original farms. In other words, each year has a record of the number of farms rented or sold, as the first step in retreat; combined with the number of farms still held by tenants and purchasers from the preceding years of the period. A particular farm may pass, obviously, from the "held by tenants" class to the "held by purchasers" class, or vice versa.

TABLE V.—RETREAT OF FARM-OWNERS FROM FARMING ON THEIR ORIGINAL FARMS, SHOWING STEPS IN THE RETREAT DURING THE TEN-YEAR PERIOD—*Continued*

	Original farms which have been divided									
	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909
Held by Tenants										
To son managing. Father keeps part managing	3	2	1	1	1	0	0	1	1	3
To two neighbors managin. To one unrelated tenant managing	1	1	1	0	0	0	0	0	0	0
To two sons managing	0	0	1	1	1	1	1	1	1	0
To unrelated tenant managing. To neighbor (sold) managing	1	0	0	0	0	0	0	0	0	0
To unrelated tenant managing. To son (sold) managing	0	0	0	1	0	0	0	0	0	0
Held by Purchasers										
To son managing. To son (sold) managing	1	1	1	0	0	0	0	0	0	0
To two sons managing	1	1	0	0	0	0	0	0	0	0
To son managing. Father keeps part managing	0	0	0	0	0	1	1	1	0	0
To neighbor managing. Owner keeps part managing	0	1	1	1	1	1	1	0	0	0
To unrelated person managing, formerly tenant. To son managing	0	0	0	0	1	0	0	0	0	0
To unrelated person managing. To young man from neighboring home	1	1	1	0	0	0	0	0	0	0

Original farms which have been divided.—Dividing the farm, the owner retaining a part, while quite evidently a form of retreat, is not a method which suggests itself readily to a retreating farmer, even when a son is the part-tenant or part-owner; the difficulties of such a situation are easily seen. However, it is interesting to notice, in the few instances of this manner of retreat, that a son or a neighbor now and then fulfills the happy conditions.

In 1909, four sons held a part of the farms as tenants; but in 1910 they do not appear in the table. As a matter of fact, they changed in 1910 to the class of tenants holding the whole farm, while the fathers took one more step in the retreat. It is plain that the status of any particular divided farm may change in like manner to some form of tenancy or purchase of the whole farm.

Divided farms must not be confused with joint-tenant farms or jointly owned farms. When a farm is divided, it becomes two or more farms.

TABLE VI.—RETREAT OF FARM-OWNERS FROM FARMING ON THEIR ORIGINAL FARMS, SHOWING STEPS IN THE RETREAT DURING THE TEN-YEAR PERIOD—*Continued*

Other farms than the original held by the retreating farmer as owner or as tenant	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909
Held as Owner										
Second farm, selling original	11	12	10	10	5	5	6	3	0	0
Second farm, leasing original	4	5	6	5	4	2	2	2	1	0
Third farm, leasing other two	1	1	0	0	0	0	0	0	0	0
Held as Tenant										
Tenant on another farm....	6	7	7	7	7	5	4	2	1	0

Other farms than the original held by the retreating farmer.—A distinct step in the retreat of some farmers is the purchase of a second farm, either much smaller than the original farm or else lying close to town, often even within the limits of town; most frequently the second or third farm combines both factors, smallness and nearness to town.

In cases where the second farm is in the open country and of good size, it is usually found that the retreating farmer has leased or sold the original farm to an older son while having in mind to provide a farm for a younger son, who later either leases or buys the second farm. A third farm for a third son is not unknown.

When a retreating farmer sells out and becomes a tenant on

another farm of ordinary size in the open country, we find the cause usually in some form of break-up of the family—usually death of the wife. This circumstance is the beginning of a series of steps in retreat; as tenant, boarding with the owner's family; or as tobacco-farmer living in town; or in other employment.

TABLE VII.—RETREAT OF FARM-OWNERS FROM FARMING ON THEIR ORIGINAL FARMS, SHOWING STEPS IN THE RETREAT DURING THE TEN-YEAR PERIOD—*Continued*

Residence	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909
Living on original farm......	49	55	65	67	72	77	84	96	102	105
Living in town...............	46	38	32	30	30	27	18	11	8	3
Moved out of county..........	7	6	5	4	4	3	3	1	1	0
Living on second farm........	15	17	16	15	9	7	8	5	1	0
Living on third farm........	1	1	0	0	0	0	0	0	0	0
Living on another farm.......	6	7	6	7	7	4	4	2	1	0

Residence of retreating farmers.—That the town has truthfully been considered the goal of the retreating farmer, this study will more or less justify. The special light, however, thrown upon the

TABLE VIII.—RETREAT OF FARM-OWNERS FROM FARMING ON THEIR ORIGINAL FARMS, SHOWING STEPS IN THE RETREAT DURING THE TEN-YEAR PERIOD—*Continued*

Employment	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909
Still Owning Original Farm										
Working on original farm..	4	12	26	34	42	44	58	79	87	96
Working part of original farm	3	3	2	2	2	2	2	2	1	3
Overseeing or helping on original farm.............	35	34	31	29	27	27	23	17	14	8
With other employment.....	5	7	7	6	5	5	3	2	2	0
With no employment.......	13	8	7	7	8	5	3	3	3	0
Working second farm.......	3	4	5	4	3	1	1	0	0	0
Working third farm........	1	1	0	0	0	0	0	0	0	0
Overseeing or helping on second farm	1	1	1	1	1	1	1	2	1	0
Having Sold Original Farm										
Overseeing or helping on original farm	4	4	3	2	2	2	2	2	1	0
With other employment.....	17	12	11	10	11	10	8	1	1	1
Tenant on another farm....	6	7	7	7	7	5	4	2	1	0
Hired man on another farm	1	1	0	0	0	0	0	0	0	0
With no employment.......	20	17	14	11	9	8	6	2	2	0
Tenant on original farm....	0	1	0	0	0	0	0	0	0	0
Working second farm......	10	11	9	8	3	4	6	3	0	0
Overseeing or helping on second farm	1	1	1	2	2	1	0	0	0	0
Total	124	124	124	123	122	118	117	115	113	108

"retired farmer" shows him as moving off his farm by degrees: giving over a part of his house to the newcomer; moving into a smaller house on the original farm; going to live with a son on another farm; moving on to a smaller farm near town; settling in a house in town surrounded by a large garden.

The tenant system appears to be a cog fitting into the notched edge of the veteran farmer's retreat.

Employment of retreating farmers.—That the retiring farmer gives up the habit of work only upon compulsion of circumstances is evident from the foregoing table of his employment,—especially from that part of the table dealing with "no employment."

It cannot fail to interest the person who thinks upon the tenant problem in terms of human relationships to find that the veteran farmer, though sagging in his physical strength, is able to impart, in the opportune rôle of overseer or helper, a portion of the wisdom gained by his years of farm experience to young men in the natural rôle of tenants.

Shifting of Tenants

TABLE IX.—SHIFTING OF TENANTS

	Shifts of tenants during the ten-year period										
Number of Shifts	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	Total
Of all tenants......	30	51	59	56	47	48	47	39	38	14	429
Of all tenants shifting within the community	20	31	32	38	29	24	29	20	24	6	253
Of all tenants shifting to and from other communities.	10	20	27	18	18	24	18	19	14	8	176
Of tenants related to owner	7	9	18	6	5	6	7	7	7	3	75
Of tenants unrelated to owner	23	42	41	50	42	42	40	32	31	11	354

Number of shifts during ten-year period.—Every change in the occupancy of a farm home involves a shifting of each of two families—one moving off the farm and another moving on. For the purpose of estimating the amount of influence upon the stability of a community due to a shifting tenantry, it will be necessary to count the coming of a family to a farm as one shift and the going of a family as distinctly another shift. For it is plain that from the social point of view pulling up the roots of a family established in the neighborhood affects every social relationship in the

neighborhood in a peculiar manner; and the planting in of a new family is a new influence requiring new social adjustments at every point.

A few explanations must be made as to how the foregoing table of shifts is made up. A farm may change occupants several times in ten years and yet no family will be found to have shifted on or off the farm; this circumstance is illustrated best in the case of a son, brought up on the farm, who becomes a tenant on the home farm. It also is illustrated in the case of a neighbor who becomes a tenant on an adjoining or nearby farm. These cases are not counted as shifts in the table.

When a family moves on to a farm as tenant and while occupying this farm rents a second farm nearby, their coming is reckoned as a shift only on the first farm.

When, however, a son, after once leaving his father's farm, moving on to another farm or going to reside elsewhere, returns as a tenant on the home farm, his coming back is reckoned as a shift.

If a son while living on, but not renting, his father's homestead becomes a tenant on a nearby farm, whether the second farm is owned by his father or by some other person, no shift is reckoned as taking place. However, if the son moves on to the second farm, a shift is counted.

Whenever a son-in-law comes to lease his father-in-law's farm, a shift occurs and is counted.

In the case of a joint tenancy on one farm by two families, one shift for each family is counted for each move.

The comparative stability of related tenants suggests that there may be methods as yet untried which would render the unrelated tenant a more stable part of the community.

TABLE X.—SHIFTING OF TENANTS—*Continued*

Number of different farms on which shifts of tenants occur during the ten-year period											
Number of Farms Involved	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	Total
Of all tenants.......	30	42	43	42	40	39	38	31	32	14	142
Of tenants shifting within the community	20	28	24	31	27	22	27	17	20	6	120
Of tenants shifting to and from other communities	10	19	23	18	17	19	15	17	14	8	89
Of related tenants...	7	9	13	6	5	6	7	6	7	3	51
Of unrelated tenants	23	33	30	36	35	33	31	25	25	11	119

The number of farms on which shifting occurs.—Neighbors generally know the farms on which shifting of tenants occurs with frequency and regularity. If a community is going to exercise social control of its tenant shifting, so as to cut down the cases of preventable shifting, it will carefully examine the conditions of tenancy on the farms where shifting is chronic.

It will be recalled from Table I that 254 farms of the 500 were at some time occupied by tenants. The present table discloses the significant fact that only 142 of these farms had any shifts of tenants during the ten-year period. On the other hand, it turns out that 17 farms have had one or more shifts in each of five or more years of the ten-year period, and may well be considered as "chronic- shifting farms."

Table II shows that the total number of "related farms" is 125. The above table shows that only 51 of these farms have had shifts, while 119 of the 154 "unrelated farms" have had shifts.

TABLE XI.—SHIFTING OF TENANTS—*Continued*

Number of different tenants shifting during the ten-year period											
	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	Total
All tenants	30	41	46	42	40	39	38	31	32	14	231
Tenants shifting within the community	20	27	27	31	27	22	27	17	20	6	146
Tenants shifting to and from other communities	10	19	23	18	17	19	15	17	14	8	138
Both within and without											53
Related tenants	7	9	15	6	5	6	7	6	7	3	59
Unrelated tenants	23	32	31	36	35	33	31	25	25	11	179
Both related and unrelated											7

The number of different tenants shifting.—The total number of different tenants shifting is 231 out of the 327 tenants. Over against the 5 "chronic shifters" may be set these 96 tenants who do not shift during the ten-year period. A tenant is considered a "chronic shifter" if he makes one or more shifts in each of five or more years of the ten-year period. The chronic shifter may never, obviously, be a tenant on a chronic-shifting farm.

Index numbers of tenant shifts.—The number of possible shifts is reckoned as follows: In the years 1909 and 1918 only one shift per farm is considered possible. In 1909, a family is assumed to

TABLE XII.—SHIFTING OF TENANTS—*Continued*

	Index number of the various kinds of tenant shifting during the ten-year period									
	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909
Number of farms.	493	491	485	479	476	475	472	466	465	463
Number of possible shifts	493	982	970	958	952	950	944	932	930	463
Index number of shifting tenancy										
Index of all tenant shifts	30/493 .0588	51/982 .0519	59/970 .0608	56/958 .0584	47/952 .0493	48/950 .0505	47/944 .0519	39/932 .0418	38/930 .0408	14/463 .0302
Index of intracommunity shifts ...	20/493 .0385	31/982 .0315	32/970 .0329	38/958 .0396	29/952 .0304	24/950 .0252	29/944 .0307	20/932 .0215	24/930 .0258	6/463 .0129
Index of intercommunity shifts ...	10/493 .0203	20/982 .0203	27/970 .0277	18/958 .0187	18/952 .0189	24/950 .0252	18/944 .0190	19/932 .0203	14/930 .0150	8/463 .0172

be occupying each farm without a shift to the farm; so that only a shift off the farm is possible. In 1918 a family is assumed to be remaining on each farm without a shift off; so that only a shift on to the farm is possible. For each of the other years two shifts per farm are considered possible, namely, one off and one on.

The index number of tenant shifting for any particular year is obtained by dividing the number of actual shifts by the number of shifts possible in that year. For the purpose of comparing tenancy in different communities situated in various parts of the United States, the system of index numbers will be found useful.

Mr. Donald has been operating his farms upon this agreement plan for 16 years. In that time he has had but five families on his three farms. One man has been with him 14 years and another 11 years.

Appendix—Agreement for Renting Farm

This agreement made the 1st day of March, 1916, by and between J. S. Donald of Springdale, Dane county, Wisconsin, of the first part, and Mat Marty of Springdale, Dane county, Wisconsin, of the second part; witnesseth that whereas, the said party of the first part being the owner of the following described premises, to wit:

That part of the farm north of the Mount Horeb, Mount Vernon highway in section 28. And the southeast ¼ of the SW ¼ of section 28. The NE part of NW ¼ of the NW ¼ of the NW ¼ section 33, the large field and pasture in the NE ¼ of the NW ¼ section 33, containing in all about 225 acres, all of the town of Springdale, Dane county, Wisconsin.

The said party of the first part leases to the said party of the second part the above described land and premises in the following manner and subject to the conditions herein named to wit:

Should a part of the farm be sold, this agreement is subject to such changes as may be necessary, but no change shall be made except at the end of a season.

The plan of renting is to be coöperative or on shares. The said party of the first part agrees to furnish the land, one-half of the horses, cattle, hogs, and seed; to pay the land tax and half of the live stock tax; also to furnish wire for fences, if all available wire on the farm is in use; and to receive one-half of all moneys, or profit derived from any product produced on the farm, or one-half of the produce not disposed of, as his compensation.

The said party of the second part agrees to use all due care and precaution in the care and maintenance of the buildings, and keep the buildings in as good repair as they now are, ordinary wear and tear excepted, and his best efforts to successfully work the land, devoting his entire time thereto as if working on a salary, and to furnish all

labor necessary to successfully conduct the farm; to furnish one-half of the horses, cattle, hogs, and seed; to work or pay all road tax, and to be to all expense of running the farm; to cut fence posts in season and to build all new fences needed, and to keep all fences in good repair; and to keep the manure hauled out and spread on the land that will be to the greatest advantage to the farm, and the last year that this lease is in force, to be spread where directed by the party of the first part. All noxious weeds are to be cut according to law and the farm yards and buildings kept in a tidy condition.

For the above services, the party of the second part is to receive one-half of all moneys or profits derived from any product produced on the farm, or one-half of any produce not disposed of, as his compensation.

For any stock or feed purchased for the farm, each party agrees to pay one-half. Fuel to be furnished from the farm but waste and dead timber to be used before any of the living timber is cut, without the permission of the said party of the first part, and all brush to be piled and burned.

Provided the said party of the second part wishes to keep more poultry than is necessary for family use, each party agrees to furnish one-half of the breeding stock, and whatever income there is above ten dollars ($10.00) is to be divided equally between the parties of the first and second parts. If the income is not over ten dollars, the party of the second part is to have all.

The party of the second part is to have a garden, and what milk is needed for family use, but if any butter is made, each party is to receive one-half; also each party is to receive one-half of any cattle or hogs butchered, or to pay the other party market price for his share.

The stock when divided is to be separated into two lots, as nearly equal in value as possible, by the said Mat Marty, and the said J. S. Donald is to have his choice of lots or decide by lot.

Notice to terminate this agreement shall be given on or before the first of December preceding its termination on the first of the following March. This agreement is to be in force for two years from March 1, 1916, with the privilege of extending the time annually as long as mutually satisfactory.

(Signed) J. S. DONALD.
(Signed) MAT MARTY.

LAND TENURE AND PUBLIC POLICY

By William Kent

United States Tariff Commission

I ask your tolerance for a statement by way of preface.

Many years ago when I was in college, I tackled what was then called Political Economy. I understand it is quite different now, and that some things that were then true beyond dispute are no longer either true or respectable. During the intervening years, I've seen many people and many things, and have wrestled with business and with public affairs. For these reasons it may be that some pages of observation and some deductions therefrom may here be of interest, although contributed by a layman.

It used to be said that Political Economy concerned itself with "the production and distribution of wealth." To the lay mind this would refer to human wealth produced and distributed by human beings. But somehow the human beings we knew escaped from the stage, and instead we looked upon puppets, John Henry, an immortal average, and Mary Jane, his wife, a promiscuous aggregate, while kind old Doctor Malthus acted as godfather to the puppet children of John and Mary. We had Laissez Faire in those days, carrying its happy assurance that, in a world of men, the ebb and flow of things would regulate human morals and promote well-being. We had a rigid constitution, the changeless law of supply and demand, and this at a time when the barkeeper fed us with extra-salt pretzels to create an artificial demand for more beer, and the landlady reached for the pump handle when called upon to increase the breakfast milk supply.

I took these fundamentals seriously, although struggling vainly with the equations and the illustrative diagrams, now known, I believe, as "graphs." I recall how diligently we followed a critical analysis of *Progress and Poverty*, and how cheered we were when we learned that the answer to Henry George's iconoclastic criticism of the unequal distribution of life's favors and privileges was to be found in the fact that as the rich grow richer the poor grow richer also. It was discouraging for me to note, later along in life, that the poor, in a world full of work and of shoes and food, did not always connect with the food and the shoes, although willing to do the work. They might have been richer than they had been, but not rich enough for practical purposes.

Those were the days when labor was paid out of a benevolent

fund, secured and thoughtfully set aside for the purpose of future employment by generous capital. You remember the amiable cartoons that depicted the beaming, rotund-vested capitalist, with plug hat, handing a pay check to the smiling toiler in a square paper cap.

I remember having seen on a blackboard a digest of a college lecture beginning a course in economics. One of the foundation statements was, "All labor is either slave or free." I wondered then, and wonder now, if that is correct. Is there no intermediate ground? Is the hungry man free to select his job, or to name his honorarium?

Getting away from the classic shades, I escaped those dreadful equations and algebraic quantities. It gradually appeared to me that human life and human beings were so uncertain, so variable, that any science based on them as factors could scarcely be exact or mathematical. It seemed that the game of life resembled poker fully as much as it resembled chess. I should have greatly admired watching a clear-thinking, mathematico-economic person, sitting, with his "graphs" and tables of poker chances before him, in a friendly game with an ignorant, crippled gambler known as "One Arm Schimmel," who had never heard of algebra, or of supply and demand, or even of the laws of chance, but who knew and loved the pasteboards, and had "poker sense" and a convenient empty sleeve.

I used to worry much because I could not possibly read philosophy, but a great and good man furnished balm to my spirit.

When I read James's *Pragmatism*, a sunrise came. I learned in this little book that nothing was so, just because something else was so, and that if you wanted to find out whether anything were so, the only thing to do was to try it out, and then, although it might have been so that time, it might never be so again. The relief was inconceivable. Deduction be damned—think of it. A vast, dreary library was destroyed.

It is with an illiteracy condoned, assured, and justified by this heretic book that I appear before you.

I cannot conceive of political economy as clear, concise, or mathematical, but only as an humble striving to adjust human relations so that the butter may be more evenly spread. In such adjustment, there must enter into consideration many relative quantities, possessing changing qualities, such as ethics and human nature, and habit and style, and automobiles and postmasters, and

politicians and policemen, and love and hatred, as well as canned tomatoes and bills of exchange.

. . . .

In the course of my ramble through life I have discovered that next in importance to the fact that wealth is produced chiefly by human beings, is the fact that it is chiefly produced and distributed on the land, which is inhabited by human beings.

It is because I believe that the land, with its natural content, its assisted product, its allotment, its use, and the form of its tenure, is the greatest and most vital factor in political economy, that I have chosen my topic. My treatment of it can be nothing more than a suggestive sketch. I wonder why so many economists, with the ground presumably attainable by their feet, have so neglected its consideration. The structure of their thought seems to me built on stilts or floated by balloons, just in the measure that they have ignored the land.

We have unfortunately inherited from feudal times a curious anti-social system of landholding, the expanding evils of which no one could have predicted. The King, for reasons that seemed good to him, bestowed upon a retainer a piece of land, and dedicated it to the grantee and his heirs and assigns forever. The land extended down indefinitely—until the world became spherical, when it became an inverted pyramid reaching to the center—and included all things on and above the surface. It might have been granted for service rendered, or to be rendered, or for rent real or nominal. At that time there were none to be considered save the King and those worthy to be his vassals; the natives went with the land, as did everything else except the wild game reserved by the King. As the state succeeded the king, in our republic, the state also retained this game exemption from private ownership, while the actual ownership and transfer of inhabitants amongst English-speaking people had long been abandoned. The grant could be fenced off against all comers save the king, and could be used, misused, or lie unused if only the rental were paid or the service rendered.

We, through the state, have gone a step further. We ask no service or rent for the exclusive privilege, for taxes are supposed to cover all property alike. Such unrestricted tenure is so much a matter of course with us that we accept it as an inevitable factor, and base our thinking on it as a postulate.

Let us see how it works out, by taking a view of things as they

are. It happens that I have dealt in every sort of land, and have often profited without adequate service rendered, and can therefore speak with knowledge of what I have seen and done and met along. My deductions are for your consideration and criticism.

In their order, let us consider the city, the farm, the forest, the desert, mineral deposits, and strategic holdings that control water or water power. What has happened under this exclusive title granted to heirs and assigns forever, and what is being done about it?

The reason given as an afterthought for such unrestricted grants, is that it secures permanence of occupation, a sense of home, and engenders a responsibility often recognized as a prerequisite qualification for suffrage.

Let us turn to the great city. The great city is no moral bug-a-boo to me. It is bad in spots and greatly good in spots. It is not socially hopeless, and as a focus of human life it is marvellously interesting and productive of thought and progress. Economically, the great city assembles people for many forms of intensive production, and by the mechanical virtue of propinquity aids in the processes of distribution. There are opportunities for the development of art and science, and other amenities that go with the coöperative possibilities of dense population.

But after all is said, the great cities are, in their growth, and because of their overgrowth, the worst pestilence to our economic welfare. That overgrowth is stimulated by the speculative form of title. Their development is not only excessive in amount, but abnormal in form, and out of it all there is engendered a parasitic privilege that is eternally ruinous.

New York, because the biggest, is the best example we have. People have crowded into a narrow island, lured thither by various calls. Some to manufacture, some to distribute, many because the city, with its excitement and its human interests, is there, and they feel an impulse toward it akin to the attraction of gravitation.

Because of the form of land tenure, they bid up the prices of the surface beyond reason, the cry is raised that land in the air is cheap, and up go the skyscrapers and up goes the value of the land upon which they rest. The big buildings shut off light and air from the streets; they fill them to overflowing from their vast floor areas. Then noisy, stifling elevated railways are needed to relieve the surface traffic, and land values increase and buildings go higher. Finally, mile upon mile of tunnel is built through solid rock, to carry the millions, many of whom are worse than unproductive.

The city defies the law of supply and demand. It finds all sorts of useless and unproductive employment. It invents jobs that cater to luxury; it provides endless tasks in increasing its own overgrowth. It is a case of round and round in a vicious circle.

Stop to think of the millions of strong, able laborers that have dug the useless tunnels, that have built too many skyscrapers, and have paved and dug up and repaired too many streets. Think of the waste of unnecessary private service that has accompanied city extravagance.

Think of what this labor might have done to drain the swamps, to clear the land, and to serve our needs in food and fiber production. Think of the wasted material, and realize the thousands of miles of country roads that could have been installed to bring our food supplies to those that need them.

Waste of labor, waste of material is doubly wasted because it has served to vastly increase the value of land held in fee simple, and upon which value, rents are to be charged by heirs and assigns forever.

The speculative dealings, as apart from the legitimate service of catering to residence, office, and factory needs, have created a large class of highly paid and utterly unproductive dealers in real estate. The central congestion has driven millions to surburban subdivisions with their irresponsible, disconnected systems of streets and sewers.

Artificial values are created for landowners, by forced installation of transportation, and the whole incoherent development is an increasing charge on useful production, as long as the city continues to grow, and as long as the real or artificial demand for land can be kept up.

The city is a social institution that is subject, like other institutions, to disorders and diseases, but there would not be the same drive toward waste were it not for the carefully planned and fostered boom spirit engineered to the end of increasing the value of privately owned land.

What have the Astors done that they should levy toll on land quoted at a thousand dollars a square foot? Whence comes this toll, and why should we continue a system that induces such phenomena?

It would be unjust to confine the arraignment to the big city. Every town in the country points with pride to its increasing population and rates its rising real estate values as contributions to the

aggregate wealth of the nation, whereas those values demand the blood of production and commerce. They are the leeches of privilege.

It is popularly and generally admitted that watered stock, at least in public utilities, is not an evidence of wealth, and that if it pays dividends the community is being robbed. Our greatest public utility is land. Its rentals, based on community created demand, are dividends on watered values, but are seldom so considered.

Let us take an instance of what might have been done under other conditions. The City of Washington offers a simple illustration. Washington is neither a producer nor a distributor. It is merely the seat of the federal government. Since the time of its founder it has been subject to land speculation. It is stated that the Capitol faced what was to be the future city, but that forehanded people obtained the high land to the east and placed upon it such values that the population crawled around behind the Capitol into the swamps of the Potomac. Then down through more recent years of land speculation, largely at federal expense, great arterial streets have been forced out into the country, often as real estate projects. For well over a hundred years successive generations of speculators have carried away the proceeds derived from the need of others, and there seems no end to the story. Let us suppose that fee simple title, with its speculative possibilities, had never been granted in the City of Washington. Let us suppose that as fast as people desired to put up dwellings, they had been permitted to do so under reasonable leases, perpetual, if you choose, on proper conditions and in specified places. Washington would then have had an orderly growth. The rentals accruing would have built all necessary streets, would have provided every possible modern convenience, and the people would have paid in ground rent probably not a tenth of what is now being paid. There would not have been the craze to subdivide far outside of necessary boundaries, with all the waste incident to miles of unnecessary streets, but instead there would have been a well-ordered arrangement, infinitely less expensive and wasteful than what has grown up in the Capital City.

Before we leave the city, we ought to consider whether this form of title engenders the home feeling, the sense of permanance and responsibility. The shifting scenes of fashionable neighborhoods, the increase of residence hotels and apartment houses, give the answer.

When we consider agricultural lands we find the same curse. We find that every improvement in transportation, whether by rail, canal, or road, at once results in higher land prices, in higher land rents, and therefore in higher cost of production, if people are permitted to charge up their rents or interest on land value as part of their producing cost. The man who would pay for his land out of its product finds that it must be done either out of more years of crops and of life, or out of higher prices from the man who eats. The McCormicks produce the harvester. Up goes the price of wheat land. Does Ford invent a tractor? Farm lands being made more productive, immediately advance in price, and neither consumer nor farm tenant gets the advantage, because at one end the farm owner can raise his proportionate rent, and at the other there is no reduction of prices for foodstuffs. Farm land, just like city lots, is oftentimes held out until the need and the breeding capacity of others call for its use. Then there stands at the gate the fee simple owner to charge in rent or in purchase price the value created by the work of others. State and national highways and railroads add to the value that the owner may capitalize. The inevitable tendency of increasing speculative values, or inherent values if you prefer, is to permit and to encourage tenancy, and to make permanent acquisition more difficult.

The fortunate owner of productive land can move to town and authorize a tenant to farm on shares, while he is enabled to live without making contribution to the common pot.

Tenant farming is so thoroughly recognized as inferior farming that I shall not stop to discuss the soil depletion and the skimming process that are its usual concomitants, lease terms to the contrary notwithstanding. The steady tendency of settled farmers to move to new speculative fields, as from Iowa to the Canadian Northwest, belies the theory of permanency.

To my mind one of the greatest bits of thought-inspiring philosophy is found in William Vaughn Moody's poem "The Brute," wherein he expresses the hope that invention, power, now ugly and destructive, and machinery may one day be harnessed to the chariot of human welfare.

We have wondered why the millions of man-power added to productive capacity, by machinery, have not abolished poverty and need. We are forced to the conclusion that they have largely been wasted in folly and absorbed by privilege. It is my contention that in our form of land tenure rests the chief privilege and a great source of social folly.

Let us consider for a moment the history of our timber lands. Their owners, and the word carries with it an impossible impudence, have felt the need of skimming them off and realizing on them in one short lifetime. As a result there have been scandalous and criminal wastes of material for which our country will some day stand in urgent need. The white pine is gone, probably 30 per cent of it wasted in heedless operation. The interspersed hemlock and other inferior timbers have largely been a total waste. Fire has completed the destruction of the badly logged areas. There never was any benefit derived by the legitimate industry of lumbering from this private ownership of the land itself.

In the case of timber land investment, as in other speculative dealings, great fortunes have been made by the increasing demand and the diminishing supply. But this is not part of logging or lumbering operations. Some years ago timber land bonds were placed on the market in great quantities. They had back of them a diminishing indispensable natural resource; nothing could appear more inherently solvent. But the interest on these bonds could only be paid out of lumber production. The equity holders were forced into cutting the marketable portion of their timber at any sacrifice of material or profit.

Many a lumber company is on the verge of bankruptcy, because it has mixed its manufacturing operations with timber speculation, and the public loss is irreparable. Any attempt to relieve the situation as concerns the public interest, by increased annual taxation, only hastens the destruction and the waste. A harvest tax is needed, and that is hard to plan under any present system that calls for uniform taxation based on value. A rational policy of withholding title, and selling ripe and needed stumpage to those who would harvest it decently, would have been vastly better for the legitimate lumber trade, and of immeasurable public value.

Our coal measures have largely gone with the land surface. Only lately has there been any attempt to separate the surface and the underground content. The wastes incident to the production of coal have been in life as well as material. That there has been no reasonable excuse for fee simple grant in coal lands is evidenced by the vast numbers of private leases. If tenure had been retained by the public, and public leases had controlled, the story of our fuel supply would have been different in every respect. Transportation agencies would not have been permitted to discriminate against localities or ownership; there would have been a stabilized,

controlled industry, permitting decent standards of living, and one of the most shameful chapters of cruelty, greed, and waste would not have been written into our history.

The story of our petroleum resources is next in point. We see "Coal Oil" Johnny debauching and celebrating, on the proceeds of what should have been common property. We see the Standard Oil Company through early ownership of the oil fields efficiently destroying its rivals and piling up power that threatens the Republic. We see booms and frauds and burning wells, and wasted oil pools, and a pressure to export a vanishing resource of incalculable value which cannot be replaced.

If we, the people, were not capable of producing our own oil from our own land for our own ships, are we not a little unreasonable in telling our uncertain friend Carranza what he should do with Mexico's supply?

The best of our iron ore has been found outside the boundaries of what has been technically designated as mineral lands. It was and is held in fee simple, to heirs and assigns forever. This iron and its accompanying coal have apparently made good the Niagara of water poured into the Steel Trust, upon which we and our heirs forever are expected to pay dividends.

The story of our grazing lands is similar. They have gone into private ownership under all sorts of legitimate and fraudulent conditions. Where they are efficiently managed and made productive, we usually find that they have been accumulated in extremely large units. Sometimes the land is largely owned. Sometimes it is enough to own the strategic points, like watering places. Unless something is done about it, the day of the small self-respecting stock raiser in the Western States is gone, except as he finds opportunity to graze on the Forest Reserves, on a rental basis, and these Forest Reserves are continually being attacked by demagogues on one side and pirates on the other.

Strategic points controlling water power have also largely drifted into private hands, so that here, too, there may be secured perpetual payment to privilege, under the royal tradition of fee simple title. Everywhere we look we find the same abuses and we find alongside of them inefficient efforts to reclaim grants once heedlessly given. There is no better illustration of the fallacy of such unproductive tenure than that of the man standing on a bridge over a flooded river and catching driftwood. When approached by a neighbor who asked to share the privilege, the man

who was first on the bridge made a deal, whereby the neighbor caught the wood for half of what he caught. The people of northern Mexico, who from prehistoric times inhabited and believed they owned the land and whatever they produced upon it, suddenly awoke to find that, under the beneficent rule of Diaz, the land had been granted from under them, and they were thereafter allowed half of what they produced. Such an illustration as this is obvious, but we fail to see our own similar procedure or to apply a remedy. There is something wrong here, a living by the sweat of another man's brow.

I wish some young man with a head for figures would spend a year in discovering how much unearned rent goes into the cost of a ham, that the man who is digging in the city sewer would like to buy, if he had sufficient wealth. Farm, stockyards, railroads, and city tenancy would all contribute their quota.

I have neglected to consider another phase of this speculative landholding. I recall a Nebraska county which was held as an Indian Reservation, wherein no land could be granted to the Union Pacific Railroad. Not being able to secure lieu land, the railroad, for the sake of land grant, made a 50-mile detour around this particular county and thereby has burdened western railroad transportation to that extent apparently forever. In city and county alike, speculative landholding has warped the progress of orderly development. In Seattle an interurban company deliberately raised its round trip fares from 15 to 40 cents and thereby destroyed all value in a large working people's settlement. The same outfit, by deliberate shift of transportation facilities, changed the values in the center of the city to real estate which it speculatively held.

A common feature in mining booms is gambling in lots, utterly unproductive, and absorbing capital that could be used for production. It is a game of "Button, button, who's the beer on?" because all players know that the last man will lose. The amount of capital rotting out in abandoned speculative boom towns, is beyond computation. It is all a tribute to this wild idea of handing over to private individuals, their heirs and assigns forever, portions of the earth's surface, to do with as they see fit.

We owe to Henry George the impulse toward the destruction of the landowning privilege, and must credit him as a great pioneer in democratic thought. But the name "Single Tax" is unfortunate, and George's essential idea in advocating such a tax is often misunderstood.

Taxes, as I see them, fall into two general categories— revenue taxes and remedial taxes. If we could conceive of a community whose members possessed an equality of wealth and of opportunity, and felt under the need of raising revenue for a common purpose, the best method would probably be found in a plain, straight ahead poll tax. Questions of import or export taxes might be considered as securing better foreign trade conditions, or for altering domestic production or distribution, but for revenue purposes there would be no need of complicating the process of taxation, with the end of adjusting intra-community relations, through taking from one for the benefit of another.

The Single Tax, or the covering into the treasury of community created value, is essentially a remedial tax, intended to abolish privilege and to release and encourage production. It has been urged, as its name would imply, as a sole and sufficient source of permanent public income, and it has, moreover, been extolled as the only tax needed for either revenue or reform.

The confiscatory tax that eliminated state bank currency, and the extortionate internal revenue taxes on alcohol for drinking purposes, show a trend toward adopting other remedial taxes. Protectionists urge a remedial need for their system of customs levies. The necessary stretching of our rigid Constitution, in its weakest point, will be found in practically prohibitive taxation under the interstate commerce clause.

As a revenue measure, the single tax will, if logically carried out, tend to extinguish itself. Unless land tenure be accompanied by the privilege of retaining at least a part of the unearned increment, there will be no reason for the individual to collect his privilege rent and thereafter return it to the state. Just as in the case of cut-over lands, which were once not considered as having any value, there will naturally be a reversion to public ownership, and thereafter the state, instead of farming out the privilege of taxation through landowning, would logically become the landowner, and the judge of the rental value.

I have been greatly interested in the great Palestine Zionist project. Its able architects have planned a structure wherein the title of all land remains in the commonwealth, and perpetual leases control its use. A devoted follower of Henry George said that the plan was based on single tax. It is based on Henry George's teaching, but instead of adopting the single tax, it makes that remedial measure unnecessary, and as it prevents the growth of a tax-

able privilege, it cuts off that source of income. It represents public renting, the assumption by the state of the simplest method of adequate control.

Speaking of Zion calls to mind the Dowie experiment that bore the name. The land upon which Dowie's Zion City was built was bought in a wild state, and title held by that wonderful autocrat. After crusades to New York and other so-called sinks of iniquity, which were immensely costly, after ill-managed and unprofitable business ventures, the funds of the faithful were dispersed, Dowie died, and Zion was bankrupt. The receivers sold the land at community-created prices and, to the best of my knowledge, there was a redemption, a repayment for waste and folly, out of values which the prophet had intended to reserve for his people.

In summing up, I arraign this traditional fee simple title for many economic and social crimes and misdemeanors, and I cannot distinguish between the economic and the social.

It has contributed a great impulse to the overgrowth of our cities and towns, and to the depletion of our agricultural areas; it has lessened our food supplies and increased their costs; it has created idle classes, farm tenancy, and bad agriculture.

It has destroyed our forests, wasted our coal supplies, cascaded our petroleum.

It has encouraged private monopoly and resultant extortion and has encouraged malevolent activities by our own common carriers.

More than any other privilege it has permitted men to reap where they have not sown. It has, like a sponge, sopped up general benefits and deprived society in general of what was due from inventions and improvements.

It levies, and unless corrected, will levy, perpetual tribute on the production and the distribution of wealth.

An extraordinary phase is that the institution perpetuates many of these iniquities without involving moral turpitude on the part of the beneficiaries. Landowing is part of our history, our traditions, and is a badge of respectability. The landowner faces the assessor with the belief that he, and he alone, is supporting the state.

What are we going to do about it?

First of all we must realize the situation and add our voices to those who have long seen the point. We must know and must teach the wrongs involved.

It is a strange thing that while we are endeavoring to curtail and control the rights already granted, we are continuing to grant the same rights. There should be no further alienation of public property into private hands under any policy, save that of lease, where control is easy, and the penalty is cancellation. There is always the power of taxation, sovereign and unlimited, which can drive needed and unused holdings into use, and can absorb the privilege tribute of unearned rent.

There are great possibilities of control through state and nation; and, finally, if we are willing to take time, and in our thinly settled country we can take more time than some other nations, we can, through inheritance taxes, destroy private titles that grant speculative and oppressive privileges, and return the land to the public with the assurance of its subsequent proper occupancy.

Before the inheritance tax can ever work out, without destroying production and wrecking the useful industrial application of large estates, there must be consideration given to the necessity of levying taxes in kind as well as in cash. There is much to be feared from the process of selling estates on the bargain counter, in order that the state and nation may put a portion of the proceeds into the public treasury. There will, in many cases, result great damage with little profit, something like what happens when lead pipe is stolen from a vacant house. But in the case of landholding, the inheritance tax if taken in kind may be levied so as to destroy title, without necessarily destroying occupancy. It may be used as a method whereby the public, in its resumption of title, can eliminate with the least disturbance this economic nightmare—the fee simple title to land.

LAND TENURE AND PUBLIC POLICY—DISCUSSION

Charles L. Stewart.—Failure to appreciate the importance of the "agricultural ladder," as described by Mr. Spillman, and the rôle of farm tenancy, as elucidated by Dr. Ely, may lead administrative officials and the public into grievous errors.

The assumption dominates the thinking of many reformers, among whom Mr. Kent's paper would classify him, that operators should own the land they farm and that owners should actively cultivate their land. Most reformers, however, would hesitate to apply this doctrine so rigidly to the tenure of business and residential properties in cities or even to those capital goods of agriculture—such as bulls, boars, and simple types of farm machinery—which, requiring no special skill on the part of the user, are often loaned or hired for use away from the owner's supervision.

Fundamentally the extent to which the hiring of capital items, of land or of anything else, is justified depends mainly on their "foolproof" qualities. Farm operators who would like to become lessees of farms having expensive and complex machinery in the form of private irrigation plants or farms whose equipment is in large herds of live stock, in orchards and vines, or in "made" land such as cranberry bogs, are likely to be disappointed in their search. Owners of farms so equipped and constituted seldom permit lessees to run their places for fear of running them down or of clogging the current of yield and profit through carelessness, inexperience, or indisposition. When any large part of the value of a farm property is imputable to equipment, herds, machinery, and improvements, the place is seldom hired without damage to the lessor, the lessee, or the public.

On the other hand the typical farm can show only a relatively small proportion of its value in the form of capital items when all operator's items are eliminated. Now land *per se* stands in a very different status from plows, herds, and the other items of working equipment. On this distinction rests the justification of tenancy of land and of the customary scarcity of tenancy of capital goods of operators.

Reasons for insisting upon the old distinction in this connection are threefold. In the first place, the operator of land *per se* deals with a property to whose deterioration it will ordinarily be beyond his power or interest to contribute a large degree in any brief period. In the second place, an investment in land puts resources into a relatively *resting* form while an investment in operator's capital goods puts re-

sources into *working* form. Working capital differs from "resting" capital in at least three respects: (a) capital goods wear or pass out sooner than land; (b) capital goods have perhaps less versatility and continuity of usefulness as seasons and policies change; and (c) capital goods are usually employed with a greater admixture of user's manual and entrepreneural service per unit of value. In the third place, the owner's selective function operates differently as between capital goods and land. Demand for specific items of capital goods controls their supply on the market. Such "birth control" is inoperative with respect to land, much of which has to be owned for centuries before a nation's controllers of development capital and labor should put it into much service. The landowner's duty as a selecter, contrasted with that of the owner of operator's capital items, is to select properties with a good prospect of usefulness in a possibly distant future. Choices with respect to operator's capital items normally carry a larger possibility of loss from a small degree of error than choices as to the proper discounting of future land values. A higher average rate of return accruing to owners of working-capital items than to owners of land, farmers wishing to sell their productive years so as to get the largest income and the most valuable accumulation, will keep their resources in those forms in which they can make them compound at the higher rates. So long as there are farmers passing beyond their most productive years and others whose time is considered more productive outside of farm operation, and so long as these supply agriculture with enough capital for landownership at the customary low rates of return on "resting" capital, just so long should skilful operators prefer to let these more highly qualified groups supply him with the use of rented land.

The difference in economic aspect between landownership and farm operation is admirably indicated by Dr. Ely and Mr. Spillman. To summarize their points of view we may resort to parallels.

Landowner's functions	*Farm operator's functions*
1. Provide primary investment capital, select specific properties, meet carrying charges, and take risks on getting in time an adequate return from rent and increment—a large amount of capital being rewarded over a long period at a low rate.	1. Provide working capital (perhaps coöperatively with landowner), select specific items of equipment, meet carrying charges, and take risks on getting in time an adequate return by way of increase of net income above wages—a variable amount of capital being rewarded over a short period at a high rate.

2. Provide developmental capital, determine the specific forms and the time schedule of its application, meet carrying charges, and take risks on getting in time an adequate return in enlarged rents and increments—a varying amount of capital being rewarded over a fairly short period at a good rate.

3. Select operators, help to supply their deficiencies in capital and in operating entrepreneurship, and take risks on getting in time a return service and an output justifying his outlay of time and funds.

2. Provide developmental labor, coöperate with landowner in determining and executing the specifications of development projects, and take risks on getting an adequate return by way of compensation for "unexhausted improvements" and by way of enlarged yields during the prospective period of association with the properties improved—a varying amount of labor being rewarded over a fairly short period at a good rate.

3. Select laborers, supply them with program and stimulus, and take risks on getting a return service and an output justifying his outlay of time and funds.

In general agricultural landowners must economize "resting" and semi-working capital. They should refuse to put capital into land purchase or developments unless it is rewarded as well as it would be if put into non-agricultural properties and enterprises demanding skilful attention and risk-assumption in the same degree. Farm operators should economize semi-working capital but more particularly working capital. They should refuse to put capital (or labor) into any particular kind or scale of farm operation unless it is rewarded as well as it would be if put into operations outside of agriculture demanding skilful attention and risk-assumption in the same degree. While the landowner calculates mainly on the basis of acre-years, the farm operator calculates on the basis of man-years.

Nor is the functional distinction between farm ownership and operation a matter of academics merely. The rate of return on working capital will ordinarily average five or six times as high as the rate on "resting" capital, while the rate on semi-working or development capital will ordinarily fall about midway between. Many a tenant whose capital in full working form yields 25 per cent buys land instead of keeping on more exclusively with high-producing forms and finds that he started to put his resources to rest at too early a data. Being "land-poor" is an all too common status. Low-rate capital should be furnished by farmers only when past their prime.

The operator, furthermore, should be free to change his location, modify his scale of farming, and shift his emphasis from product to product. He makes these variations according to changing conditions

in his information, maturity, family labor supply, capital resources, and according as margins on various products and policies vary under changes in prices and costs. Operators profit most, therefore, where boundary lines of ownerships do not restrict the shifting of the boundaries of operated areas. The presence of a high percentage of land leased by part owners is a striking evidence of the need for elasticity in the boundaries of operated areas during dynamic times.

It is usually better for an operator to refuse to own much land until able to start retiring his capital from more active forms to that form which affords the luxury of home ownership and of an income less dependent on strenuous entrepreneurship. Such an income is made certain at the expense of becoming modest. Where ownership of farm and home is needed to afford economic stimulus to a farmer and his family it may, of course, be wiser to retire part of the resources in order that greater manual and entrepreneural support may be given to the rest of the resources. In many of these cases it would be better still for family and social economy to spread a recognition of the fact that enlargement of resources in capital items may signify greater wealth and larger income than landownership. The conversion of resources to the "resting" form is justified on precisely the same basis in the case of farm operators as it is in the case of other active business people, and by that we mean that too early retiring of one's capital is as improper from the social viewpoint as too early retiring of one's entrepreneural or manual service.

In the light of the papers presented by Dr. Ely and Mr. Spillman we must criticize adversely any attempt by federal or state authorities to introduce a land policy under which standardization and system go too far. A planned rural development must avoid at least the following pitfalls:

1. The areas obtainable for operation by farmers must not vary over too small a range in any community and there must be no avoidable obstacles to the shifting of lines between operated areas by easy arrangements. There must be no checkerboard conception as to "ideal" tracts for operation. If basic tracts are standardized interstices must be left between them for fractional tracts, subject to annexation to basic tracts as operators need to expand. These fractional tracts should not be made too large and should not fail to be numerous. If such fractional tracts are not provided by the government plan, no restriction should be put in the way of breaking standard units up as need arises.

2. Ownership of the land must not be made a condition of opera-

tion. Otherwise the length of the step between the apprentice status of farm hand and the status of more or less retired resource assumed by landowners will become so wide that the economic stimulus of the agricultural ladder will be lost. Unless land leasing is permitted and unless administrative officials are as efficient as private landlords in adjusting lease relations, it will be hard to justify the government project.

3. A government land-settlement scheme should avoid any effort to standardize the careers of farmers either by fixing rigid time schedules of achievement or by restricting the goal of income or of accumulation. The advantages of economic freedom in moving to preferred opportunities, taking risks on preferred policies, etc., must not be lost.

4. Regardless of the extent to which government land-settlement projects are undertaken, more decided steps should be taken throughout the country to help landlords and tenants to understand the economic functions incumbent upon them and to perfect their relations. Perhaps our county farm bureaus can do this by conferences on landlord-tenant relations, by helping with the construction and the typing of leases, and by promoting arbitration out of court in cases of dispute where the adjustment involves an agricultural result.

W. J. Spillman.—Professor Ely refers to the fact that young men starting out with little capital frequently find it financially desirable to be tenants rather than owners because of the larger business they can conduct on their limited capital. I wish merely to confirm this statement by referring to data collected in our farm management surveys while I was connected with the Office of Farm Management. In all of our more recent surveys we made groupings of men according to total capital owned. All those with capital of less than \$1000 constituted one group, those with from \$1000 to \$2000 another group, and so on. Each of these groups was divided into subgroups based on tenure. In nearly all cases the lowest groups, that is, those with the lowest capital, contained only tenants. As the amount of capital owned increased the proportion of owners increased, and, generally speaking, when the average farm income of a group of owners had risen to the point that permitted a satisfactory standard of living, practically all of the men passed from the tenant into the owner class. This in spite of the fact that a tenant with a given amount of owned capital, in practically all cases where considerable numbers were averaged, had a farm income approximately three times as great as owners with the same amount of capital.

These figures indicate that the tenant, by passing from tenancy to ownership, sacrifices about two thirds of his net cash income. The very fact that in all cases practically the entire number of tenants became owners as soon as practicable, sacrificing two thirds of their income in order to do so, indicates that there are compelling reasons for his doing so. I am not sure that I know all these reasons. One of them, however, is the desire to own a home; another is the desire for economic independence which the owner enjoys in a much greater degree than the tenant. I think too that in many cases the prospective rise in future values of farm land make the investment attractive.

I think it is very fortunate that tenants do strongly desire to become owners and do so at the first opportunity, for a farming community made up entirely of tenants seldom maintains itself at as high a level of rural welfare as is the case with a similar community made up of farm owners.

B. H. Hibbard.—It may be well to call attention to a few points in the paper on single tax in spite of the well-known and well-worn character of single tax argument. The agility with which the transition is made from one type of property in land to an altogether different type is always amazing. The reader of the above paper is no exception. In one paragraph he discusses ordinary farm land which is held in small tracts, and farmed under highly competitive conditions. If the ownership of such land is a monopoly then surely the word must be defined anew. In the next paragraph he discusses, in the same tone, such things as coal mines and forests. These have long been recognized as monopolies, and at least something has been done toward their control. All single taxers are discretely vague on the vital question of farm land held out of use.

The single taxer is distressed because land which at one time was acquired at little expense rises to high values. He wants the government to squeeze the value out. It may be suggested that one purpose of accumulating property is security in old age, the desire to leave property to one's children, and the like. Should all land be nationalized, it would be necessary for a farmer, in order to accumulate anything beyond chattels, to invest his savings in something outisde the farm, thus dividing his interest. At the same time, should the state collect the full economic rent, it does not appear that land would be any more accessible than at present, since any tenant is able now to get land on payment of its competitive rental value.

The case of a bridge from which driftwood may be caught is cited

to illustrate the absurdity of the payment of rent to a private landowner. If the bridge is replaceable at will, and there is plenty of wood to be had, the illustration fails, since it is plain that the builder of the bridge is paid for a real service. If the bridge is not replaceable, it fails, because it is not analogous to farm land. It is a monopoly and should be dealt with as such.

Another habit of the single taxer which is difficult of comprehension is his assumption that almost no property other than land yields a surplus. Why not look into these other sources of unearned increment, instead of begging the question by explaining all such advantages as dependent on landownership?

Some of us are unable to comprehend the views of the single taxer, but he has the privilege, which he is frequently ready to exercise, of telling us, as Browning told certain of his readers, that he could not furnish the brains for writing the poems and at the same time for understanding them.

SOME PURPOSES AND RESULTS OF PRICE FIXING

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It will be some years before a full and careful analysis can be made of the effects of price fixing in the various countries. Even given a long time for the study, the problem will be exceedingly complicated because in many cases the fixed prices have been ignored in actual transactions; therefore the records may not show the facts. In other cases, prices have been definitely fixed without any official evidence. In this country there has been a considerable amount of price fixing by indirect means, in cases where no laws gave the power to fix prices.

The term price fixing is used in this paper to cover all cases where government agents have determined the price at which commodities were sold.

In some cases prices have been fixed by request or suggestion, but often the punishment for failing to accept the suggestion would have been more severe than for failure to obey a law.

Another form of price fixing has been the fixing of prices at which stored products such as butter and eggs could be sold. The fact that consideration was given to costs may have helped in determining what the price should be, but the result was none the less a fixed price.

In this very limited paper the writer will state only a few of the results of price fixing. The principles involved have long been known to economists, but the general public does not know either the facts or the principles, and herein lies the danger. The principles involved are general, but illustrations will be taken from the field of agriculture because the writer is working in this field. It is also probable that in the various countries more price fixing has been done for agricultural than for other products.

Reasons for Price Fixing

There are three conditions under which price fixing is generally recognized to be essential: (1) when the government is to take all or nearly all of a given product, as in the case of wool in 1918; (2) when a monopoly exists; (3) when a city is besieged.

These are simple cases. The besieged city should take over all of the food supplies and ration the population. Since no food is

produced, fixed prices will not stop production. A monopoly must be controlled. The government must have power to take private property for public use.

Aside from the three reasons for price fixing that are enumerated above, there are many other motives, some of which occasionally justify price fixing, but most of which are fallacious and result in public as well as private injury.

Prices may be fixed to try to overcome the effects of inflation. They may be fixed to avoid the necessity for economy. They may be fixed to benefit some class in the population. The reasons for wishing to benefit such a class may be because this class is in control of the government, or because the government is afraid of it, or because votes are desired, or because of a desire to compel some one class to help the poor.

When governments assume the rôle of middleman in international trade, prices become an international question and may be fixed for corresponding reasons. There are many other motives, such as a desire to hold down prices of food so that wages will not rise, thus indirectly reducing the amount that a government must borrow.

Some Objections to Price Fixing

The popular demand for price fixing comes very largely from a desire to avoid the necessity of economy. The ordinary consumer believes that if prices are fixed he can have more of the product, not realizing that, whatever the price, we can eat only as much as there is, and that a reduced price reduces the production of the product that was already short.

In times of a short crop or unusual demand the desire for price fixing is increased, but in times of a short crop the producers look for good prices to offset in part the low yield. The short crop of wheat in 1917 resulted in a fixed price. The total returns from winter wheat per acre planted divided by the index numbers for wholesale prices of all commodities give the next to the lowest returns for any one of the last twelve years (Table 7). Producers were disappointed with the low returns. High prices or compulsion are necessary if a short supply is to be made to last uniformly throughout the year. In 1917, the wheat crop was consumed much too rapidly early in the year (Table 3).

The high cost of living in each generation promises to become a more difficult question. A correct understanding of the problem is, therefore, of more than passing importance. We have, doubtless,

passed the point of maximum food production per hour of human labor. New inventions help, but in spite of them, every additional bushel is now a more expensive bushel. A machine that saves labor on the farm does not save as much human time as is often assumed, for someone must make the machine. Food is becoming fundamentally more expensive to produce in terms of human effort, because poorer land must be used and because, on the good land, production has reached the point of diminishing returns. If it were not necessary to increase the amount of food, inventions would reduce the amount of human effort required in food production. But the demand for more food calls for the use of land that must be reclaimed at great expense, and calls for more intensive methods on land now in use. It is of course possible, and perhaps probable, that improvements in manufacturing will take place so fast as to more than offset the increasing cost of food so that general well-being may continue to be improved. But food is almost certain to continue to call for a larger share of the workers' income, if the population of the world continues to increase as it has done in the past fifty years. There are no more Iowas waiting for the plow.

One of the great underlying factors in the present world conflicts is the effort to place the blame for the pressure of population on food supply. We can no longer obtain the former supply of food with the same effort. Not knowing that this is due to the ratio of population to natural resources, each class believes that it is not receiving just treatment. The industrially minded believe that farmers are at fault, labor blames capital, farmers blame middlemen, consumers blame prices, nations blame each other.

A fundamental objection to price fixing is that for every product there are more consumers than producers. Majority opinion on prices is therefore in grave danger of strangling any industry to which a price-fixing policy is applied. When discussing the desirability of increasing freight rates, a popular argument was that only a few persons would be benefited, whereas a great number of shippers and consumers would suffer. This point of view is practically always presented in price-fixing discussions. Publishers and educators usually have the consumer's point of view—except, of course, on their own wares. The cotton grower believes in a fixed price on wheat, but not on cotton. The newspaper believes in a fixed price on paper, but not on newspapers. Most price fixing is essentially class favoritism. If it continues long enough, first one class and then another may gain the ascendancy.

The food-control and price-fixing campaigns have magnified both the importance of food control and the injustices that exist. At the same time, the protecting power of the government has been magnified. In popular opinion the government is coming to have many of the attributes of the Deity. The government can raise wages, make products abundant and cheap to the consumer, and at the same time give the producer cost plus. Since each class shares these hopes, each in turn will call on the government for help.

Unfortunately the publicity campaigns in connection with price control have featured instances of injustice and have led the public still further in its mistaken idea that high prices and food shortage are in general due to the fact that the public is being "held up." This leaves a bad state of mind for meeting the real problem. These misleading campaigns, exaggerating both the evils of the present system and the beneficial effects of food control, have led a large proportion of the population to believe that the producers and dealers in food are their natural enemies, that they are profiteers, and must be curbed by governmental action, or by more violent means if necessary.

An opposite and favorable effect has also resulted. The intense desire of the government to reduce food prices has led the consumers to have great confidence in government price control. In some instances, this has led to the willing acceptances of just prices that might otherwise have been considered unjust, and has been a benefit.

One of the effects of price fixing is the impetus that it has given to the organization of farmers. Formerly farmers have, in general, sold the results of their labor according to the law of supply and demand. They have, therefore, not been organized. It may be good public policy to have farmers organized, but certainly it would be better if such organization could have a normal growth rather than a forced growth.

Fixed prices stimulated the movement from farms to cities. In the year ending February 1, 1918, as shown by the State Census in New York, 21,430 persons left the farms to work in other industries. This was a larger number than went for military service. Nor did they all go to war industries. The number who returned to farms during the year was 13,894. It is, of course, impossible to tell how much of this unfavorable balance was due to fixed prices, but a very large part of it is certainly a result of price fixing.

The movement to and from farms is always going on. A State

Census in New York in 1917 indicated that 46,367 sons of the present farm operators were working at some industry other than farming. There may soon come a time when the net movement will be to farms. Price fixing increased the movement to cities, delayed the turn of the tide, accentuated the maladjustment, and may make the return movement too violent when it does come.

Price Fixing to Overcome the Effects of Inflated Currency

Most of the arguments for price fixing of foods in this country were based on a desire to overcome the effect of inflation, or to keep prices of food from going up along with general prices.

If the dollar were stabilized, most of the clamor for price fixing in this country could have been avoided. Most of the popular arguments for price fixing were efforts to bring everything back to the old dollar.

Food prices and general commodity prices have on the average followed bank deposits, as is shown in Table 1.

TABLE 1.—INDEX NUMBERS FOR BANK DEPOSITS AND PRICES

Year	Bank deposits[1]	Wholesale prices[2]	Wholesale prices of food[3]	Average farm prices 30 farm products[4]
Average 1910-1914	100	100	100	100
1914	110	101	103	99
1915	118	102	106	101
1916	147	125	128	121
1917	174	178	180	185
1918 (preliminary)	201[2]	196[5]	183[5]	198[5]

[1] E. W. Kemmerer, *American Economic Review*, June 1918, p. 255.

[2] *Report of Committee on War Finance of the American Economic Association*, Dec. 1918, p. 98. Recalculated to the five-year base. The figures are an average for Mar. 4, May 10, and June 29.

[3] Recalculated from Reports of the U. S. Bureau of Labor.

[4] Calculated from prices reported by the U. S. Department of Agriculture.

[5] Average for Mar., May, June, July, 1918.

In 1917, the index figure for gold and gold certificates compared with 1910-14 stood at 185, bank deposits at 174, and food stood at 180. Bank deposits increased before the commodity prices increased.

The index numbers for wholesale prices are much the same as they were during the Civil War as is shown by Table 2.

TABLE 2.—INDEX NUMBERS OF WHOLESALE PRICES CIVIL WAR AND WORLD WAR[1]

Year	Index number	Year	Index number
1856-1860	100	1909-1913	100
1861	95	1914	102
1862	112	1915	103
1863	141	1916	127
1864	181	1917	180
1865	205	1918 July	204
1866	181		
1867	163		
1868	152		
1869	145		
1870	135		
1871	129		
1872	132		
1873	130		
1874	126		
1875	121		
1876	112		
1877	105		
1878	96		
1879	92		
1880	101		

On June 21, 1917, speaking before the Senate Committee on Agriculture, Mr. Hoover stated, "Altogether we face the amazing situation of the country producing a surplus of foodstuffs and paying the highest prices known to its history."[2]

According to the index numbers of the United States Department of Labor, wholesale prices of food in June, 1917, stood at 2 per cent above the index price for all commodities.[3]

Speaking at Harvard University, Mr. Hoover stated, "By our entry into the war we arrive at two issues: first, the issue we must have partially fronted in any event—the control of our food so as to ameliorate prices, for unless we can do so, we must meet a raise of wages with all its vicious circle of social disruption at a time when maximum efficiency is vital to our safety; second, that we may also meet the increased demands of our allies that they may remain constant in the war."[4]

An Associated Press report dated December 3, 1917, is as follows: "As to the regulation of prices of all commodities by the government, Mr. Hoover said that either prices must be regulated or there must be a continuous wage increase, and added:

[1] Recalculated from Reports of the U. S. Department of Labor.

[2] U. S. Food Administration Bulletin 2, p. 9.

[3] U. S. Department of Labor, *Monthly Labor Review,* Vol. VII, No. 3, p. 109.

[4] U. S. Food Administration Bulletin 2, p. 13.

"In other words, wages must ascend according to the prices of the necessities of life. I mean by that that the high cost of living must stop or we must have a continuous ascending wage scale. A continuous increase in wages usually undermines national efficiency, and, of the two evils, it is evident that we must make an effort to regulate prices."

In December, wholesale prices of foods stood at 2 per cent above the general price level of all commodities.

Presumably these statements represent the general point of view of the food-price-control policy in the United States. Another motive, not so widely published but often referred to in private, was the fear of the foreign element in cities.

Attempting to hold down food prices so as to prevent labor, or any other prices, from rising when the circulating medium is constantly being increased may, at times, be expedient but is fundamentally unsound. It is an attempt to place the entire burden of inflation on one set of commodities.

Some Effects of Price Fixing

Fixed prices may be the same as the competitive price would be, or may be higher or lower than the competitive price. They have the corresponding effects, modified by the general psychological effects that fixed prices have on producers and consumers.

If prices are fixed at what the competitive price would be, the supply of the product will ordinarily be sufficient to meet the demand.

If prices are fixed higher than the competitive price, production will ordinarily be unduly stimulated and consumption reduced, with a consequent surplus. The government must then find a means of forcing consumption or accept a loss. No example of this has so far occurred in the field of agriculture. If the weather should be favorable and if the currency is not further inflated, it is probable that this may occur with wheat in 1919.

If prices are fixed below the competitive price, consumption of the product must be limited or the supply will not meet the demand. The experience with wheat illustrates this law.

Some Effects of Price Fixing as Illustrated by Wheat

In the fall of 1917 the average farm price of wheat was reduced from \$2.29 to \$2.01.[5] Had prices not been fixed, it is probable

[5] U. S. Department of Agriculture *Monthly Crop Report*, Dec., 1917, p. 134.

that the price would have gone to $3. Press statements have been made that wheat would have been $5 and flour $30 if prices had not been fixed. A comparison of the prices of competing food products over a series of years shows no reason for expecting such prices.

When the price was reduced a portion of the public was prevented from eating wheat by patriotic appeal, but another portion began to eat wheat at an abnormal rate, so that the total consumption in the first part of the year was slightly more than in 1916-17, when wheat was relatively higher compared with the prices of other foods. An unduly large proportion of the year's crop was consumed by February, and the year's exports were low (Tables 3 and 4). It then became necessary to compel the use of wheat substitutes.

TABLE 3.—PRODUCTION AND EXPORT OF WHEAT FLOUR*

	July 1, 1916 to Feb. 1, 1917	July 1, 1917 to Feb. 1, 1918
Production, barrels	41,264,981	43,481,057
Exports, barrels	8,495,100	9,640,400
Difference, barrels	32,769,881	33,840,657

* U. S. Food Administration Bulletin 769, p. 7, and Bulletin 741, p. 6.

TABLE 4.—EXPORTS OF WHEAT AND WHEAT FLOUR IN TERMS OF WHEAT*

July 1, 1916 to June 30, 1917	203,707,598 bushels
July 1, 1917 to June 30, 1918	127,743,687 bushels
Decrease	37 per cent

* U. S. Food Administration Bulletin 1375, p. 6.

During the fall of 1917 urgent appeals were made to farmers to market their wheat more rapidly. Many newspapers contained sharp editorials condemning farmers for hoarding. The public was assured that Americans would not be rationed. The government report on March 1 indicated that only 17 per cent of the crop was on farms and the amount in elevators was extremely low.[6] It then became apparent that the crop had been marketed and consumed too rapidly. Consumers then turned to rye. The

The highest price after the new crop was harvested was $2.29 on Aug. 1. The price was $2.01 on Dec. 1, after prices were fully under control. The commonly quoted $2.20 price is for a particular grade of wheat in particular markets. It is not the price that farmers received.

[6] U. S. Department of Agriculture *Monthly Crop Report,* March, 1918, p. 21.

farm price of rye jumped from \$1.75[7] in February to \$2.35[7] in April. Rules were made requiring the substitution of other flours in place of rye and wheat and in June the farm price of rye dropped back to \$1.88.[7]

When the price of wheat was fixed the first effect was to widen the spread between the farm price of wheat and the New York wholesale price of "Minnesota Patent" flour. Later the spread was reduced to about the same as it was in 1916 (Table 5). To determine the effect that this had on millers' profits the price of bran and middlings would also have to be considered, as would the closeness of milling.

TABLE 5.—DIFFERENCE BETWEEN FARM PRICE OF WHEAT AND NEW YORK PRICE OF FLOUR*

Year	Amount by which wholesale price of a barrel of flour in New York exceeds farm price of 4.5 bushels of wheat
1915	\$1.73
1916	1.86
Jan.-July 1917	2.85
Aug. 1917	3.00
Sept. 1917	3.81
Oct. 1917	3.22
Nov. 1917	2.50
Dec. 1917	2.46
Jan.-May 1918	1.85

* Prices of flour are from Bradstreet's. Price of wheat from reports of the U. S. Department of Agriculture.

The price of bran was fixed in the spring of 1918. The fixed price was ineffective in many cases. By combination sales and by mixing with other feeds, a price higher than the supposed price has often been charged. The distribution in different regions was also changed as a result of the fixed price. The actual cost to farmers was made very high in the East, but was slightly lowered in the Middle West. For the six New England States the average price paid by farmers on September 15, 1917, was \$39.48. On September 15, 1918, when the price was supposed to be fixed, the prices paid averaged \$48.58.[8] At the same time the prices in many of the Middle Western states were lowered. The actual operation of the fixed price made it impossible for many farmers to obtain bran, and acted to the particular injury of New England.

The fixed price of wheat when currency was constantly being

[7] U. S. Department of Agriculture *Monthly Crop Report,* July, 1918, p. 82.
[8] *Ibid.,* October, 1918, p. 131.

inflated and when the prices of other commodities were constantly rising resulted in a constantly decreasing purchasing power. The index number of purchasing power for the farm price of wheat was 132 in September, 1917, and 116 in June, 1918. A fixed price when general prices are rising not only results in a loss in purchasing power by holding wheat, but the shrinkage is also lost. Under such circumstances a fixed price may be expected to result in dumping the product on the market as soon as possible after harvest.

The wheat movement in 1917 was rapid, but by no means as rapid as it would have been had farmers been sure that the price was really to remain fixed. Many farmers believed that by some means a higher price would later be obtained. By the fall of 1918 the fact that the price was to remain fixed was understood, and the wheat movement from July 1 to December 14 was greater than ever before occurred in the same period. The marketing would have been much faster, but in many cases the movement from farms was stopped either by refusal to furnish cars or by the refusal of the elevators to buy.

Table 6.—Wheat Movement July to December, 1918*
(*Million Bushels*)

Year	Produced	Movement July to December
1910	635	151
1911	621	155
1912	730	232
1913	763	206
1914	891	301
1915	1,026	288
1916	636	236
1917	651	123
1918	917	324

* The dates in December vary from 11 to 17 in different years. Figures for production are from the U. S. Department of Agriculture. The wheat movement is from Bradstreet's.

The *Weekly News Letter* of the U. S. Department of Agriculture, Jan. 8, 1919, p. 3, states that up to Nov. 29, the total amount sold from farms was 588 million bushels, but much of this apparently had not reached the channels from which Bradstreet's reports are made.

When the price received is compared with the index numbers for wholesale prices, the fixed price of wheat in 1917 resulted in paying farmers less per acre of winter wheat planted than had been paid for any crop since 1906, except for the crop of 1912 (Table 7). The fixed price gave the average acre of winter wheat

planted for the 1917 crop a purchasing power of only 88 per cent of the five-year average before the war.

TABLE 7.—PRICES AND INDEX NUMBERS OF THE PURCHASING POWER OF WINTER WHEAT*

Crop year	Price Dec. 1	Purchasing power		
		Per bushel	Per acre harvested	Per acre planted
1910-1914	87.7 cents	100	100	100
1913	82.9	92	94	98
1914	98.6	111	130	140
1915	94.7	101	101	110
1916	162.7	125	106	104
1917	202.9	125	117	88
1918	206.7	111	104	100

* In preparing this table the value of the crop produced was divided by the acres planted to determine the value produced per acre planted. The resulting figures were divided by the index number for wholesale prices of all commodities to get the purchasing power per acre planted. Other results were similarly calculated. For 1918 the index number for all commodities was taken for Sept. 1, as the Dec. 1 figure is not available. It is not possible to make a similar table for spring wheat because the area abandoned is not reported.

The actual price, the purchasing power per acre planted, and the purchasing power per acre harvested all influence later planting. But, in general, the returns per acre planted are most significant. The good returns in 1914 resulted in a great increase in acreage. The yield per acre was also high. The price was therefore disappointing and the acreage dropped back nearer to the normal. The crop of 1916 sold for a higher price but the yield was poor so that the acreage planted for 1917 increased but did not reach the record acreage of 1915. The acreage for 1918 was influenced by two factors. The returns were not so good as formerly but a patriotic appeal for planting 47 million acres was made. The actual planting was 42 million acres, about the same as in 1914. The better production in 1918 made the fixed price a much better price per acre planted than the same price was in 1917. The crop of 1918 had a purchasing power per acre planted as good as the five-year average before the war, and gave a little better than average returns per acre harvested. This might have been expected to result in an increase in planting over the area planted for 1918. Two other factors contributed to the increased acreage for 1919. Many persons believed that the war would stop and that the prices of other grains would drop. A patriotic

appeal was made for planting 45 to 47 million acres. The result was a planting of 49 million acres.

The net result seems to have been about as follows. The fixed price resulted in a very poor net return to farmers for the effort expended in raising winter wheat in 1917, a smaller acreage in 1918 than would have been raised had prices not been fixed, and a greatly increased acreage for the crop of 1919.

Apparently the fixed prices reduced the amount that farmers received in 1917 by 300 to 500 millions of dollars. If the weather is normal or better, it is possible that the federal treasury or the consumers will be called on to return this in 1919. The fixed price also resulted in the consumption of wheat in the first part of the year, and the eating of its substitutes in the last part of the year. In every way the fixed price has resulted as would have been expected.

Fixed Prices for Storage Eggs

The fixed price at which cold-storage eggs could be sold prevented fresh eggs from rising in price in the winter of 1917-18 as much as they would have done in keeping pace with currency inflation, and with the advance of the season.

The purchasing power of eggs compared with the four-year average for the same months before the war stood at 101 in June, 1917. In December it dropped to 78. At the same time feeds were high. The purchasing power of corn stood at 122. The result was an excessive marketing of hens. The effect in New York State was shown by the State Census. Hens decreased from 10,738,960 on April 21, 1917, to 8,907,644 on February 1, 1918.

To stop the slaughter of hens, the Food Administration made a rule prohibiting their sale. However, such a rule could not compel the raising of chickens. It seems probable that the price of eggs to consumers in the winter of 1918-19 and 1919-20 may more than offset the saving in 1917-18. Such violent fluctuations in profits are often followed by equally violent reactions. It is possible that the next effect will be the raising of too many chickens in 1919 and consequent over-production of eggs in the spring of 1920.

Other Farm Products

Space forbids discussion of other farm products. The point at which prices were fixed was largely a matter of accident as to who

was on the committee that fixed prices. The fixed price of wool (July, 1918) still left it the highest priced farm product. Compared with the four-year average before the war it had a purchasing power of 165. Wheat (December, 1917) had a purchasing power of 131, but owing to the poor yield this price had a low purchasing power per acre planted. Iron (December, 1917) had a purchasing power of 121, copper 89, eggs 78, butter 80. The prices of cotton with a purchasing power of 127 and cottonseed 170 (December, 1917) were not fixed.

Agriculture, as well as the city, has cases of fixed income and increasing costs. For example, horses are raised on high-priced feed and sold at prices actually lower than before the war. In general, the producers of products that have a purchasing power much below 100 have not been well enough satisfied to maintain their normal production. The farm values of the following products were among those that had a purchasing power of less than before the war: beef cattle, veal calves, milk, butter, chickens, eggs, potatoes, and onions. Among the products with a purchasing power higher than before the war were wool, sheep, cotton, grains, and hogs. Monthly prices for thirty products were shown by curves but there is not room to reproduce these. It is expected that they will be published elsewhere.

THE POSSIBILITIES OF PRICE FIXING IN TIME OF PEACE

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I

Parallel with the path of progress from autocracy to democracy lies another path which leads from authority to liberty, from coercion to persuasion, from getting things done by appealing to fear to getting them done by appealing to hope, from a condition under which every one does what he is commanded to do by some one in authority to a condition under which he does what he is persuaded voluntarily to do by some free citizen with no more authority than himself.

A state of war puts us back several stages in both paths of progress. Democracy must temporarily give way to something closely resembling autocracy. Macaulay said long ago that an army might succeed under a rather poor general, but that no army ever succeeded under a debating society. In the civil government as well as in the army, discussion and legislation are suspended or become more or less perfunctory, while administration becomes more active and more peremptory. Similarly, and for the same reasons, we are set back in the other path of progress. Voluntary agreement largely gives way to authoritative control; men do less what they agree to do and more what they are told to do; they have less room to consider what line of action will bring them the largest rewards and are compelled to consider more and more what lines of action will keep them free from the danger of punishment; they make their enconomic adjustments less and less on the basis of voluntary agreement with other free citizens; they find these adjustments made for them more and more by some one who is in a position of authority over them and who has power to inflict punishment upon them if they do not submit.

These two paths lie so closely parallel as sometimes to deceive us into thinking that they are one and the same. They are quite different, however, as shown by the fact that it is quite possible to have liberty without democracy, and democracy without liberty. In the Canal Zone under Colonel Goethals, there was a great deal of liberty without any democracy whatever, though some have made the mistake of thinking that because his rule was so mild it was therefore very democratic. In Russia today, there is a great deal of democracy with very little liberty, though some have

thought that, because there is so little liberty, there can not, therefore, be very much democracy. Nothing is more democratic than a lynching bee, where nothing impedes the will of the majority, but there is very little liberty for the individual. Its method is compulsion rather than persuasion; it appeals to fear rather than to hope; it inaugurates a regime of illiberalism rather than of liberalism, and yet it is as democratic as anything can well be.

Even under a permanent government the same distinction holds good. A democracy way be illiberal as well as liberal, and an autocracy may be liberal as well as illiberal, though, as a general rule, one expects to find autocracy and illiberalism linked together and democracy and liberalism progressing side by side.

A general policy of price fixing, however democratic the government that adopts it, is an illiberal rather than a liberal policy. It involves an extension of the field of authority and compulsion, and a restriction of the field of persuasion and voluntary agreement.

For centuries before 1776, mediaeval governments were trying to fix prices. Much of the economic discussion among the precursors of Adam Smith was concerned with the question of *justum pretium* or just price. What is a just price and how can it be determined? was a great economic problem of those times when governments were directing everybody in all the affairs of life.

The great liberal movement of the latter part of the eighteenth century and the early nineteenth century swept all these errors away, and aroused trust in the people so that they began to arrange these matters for themselves in the free atmosphere of the open market. This liberating of enterprise and industry from the hampering influence of groups of office holders, anxious to enlarge their authority, was followed by the greatest burst of prosperity that the world has ever known. If we adopt a general, undiscriminating policy of price fixing as a part of a permanent peace program, we shall be going backward rather than forward; we shall be returning to a regime of authority and compulsion rather than going forward toward a regime of voluntary agreement among free citizens.

II

Lest the foregoing be interpreted as a general, undiscriminating advocacy of a *laissez-faire* policy, I hasten to disclaim any such intention. Competition is only one among a number of methods of holding the individual to some kind of standard of perform-

ance, but among all those methods it is, in a certain class of cases, the most satisfactory and efficient. No individual is good enough, wise enough, industrious enough, or public-spirited enough, to be left entirely to himself to decide how much service or how good service he shall render, and how much service or how high a price he shall exact in return. The man who imagines that he is responsible only to God is pretty certain to be the servant of the devil. How to enforce responsibility to his fellow men is the largest question in the whole field of social control. The question of price fixing by government authority as against price determination by voluntary adjustment on the open market, needs to be discussed, not as though it stood alone, but as a part of the larger problem of enforcing individual responsibility, of exacting a good service from him for others, and for him from others.

The two recognized agencies for holding the individual to a standard of performance in production or service are his competitors and his government. His competitors are all those who offer a product or a service which is an equivalent of, or an effective substitute for, his own. His government, if it is not a mere abstraction, consists of men or women who have been elected or appointed to office. Whether the individual can be held more effectively to a proper standard of performance for a proper reward by his competitors or by the office holders who are elected or appointed over him, is the real question. The answer will depend upon the circumstances of time and place.

If there are real competitors present to hold him in check, that is, if those to whom he offers his product or his service have the alternative of accepting it or another of the same kind offered by some one else, there is a very effective check upon his rapacity. Where there is no competitor handy, that is, where those to whom he makes the offer have no alternative but to accept his terms or do without the product or the service which he offers, there is no very effective check upon his rapacity, and it may be necessary to fall back upon the office holder. Where there are competitors handy, they provide a rather more effective check, and at a lower cost, than office holders could provide.

The mere matter of cost, while not the most important consideration, is one of sufficient importance to be a decisive factor in some cases. Instead of maintaining a gang of office holders to hold the individual in check, to enforce a high standard of service on his part, and to limit the price which he can charge, it would sometimes be better to set those office holders to work competing

with him. This would compel him to give good service at moderate cost, and would, besides, add to the total amount of service rendered. In case, however, there is no possibility of setting them or any others to work competing with the rapacious individual, this remedy is not available, and it may be better to elect or appoint them to some office where they can regulate him.

Even in the case of a monopoly, if it supplies a luxury rather than a necessary, the case of the consumer is not so very desperate. It is true that his only alternative is to take the luxury at the price offered or to leave it, still his is not a very severe alternative. He ought not to buy the luxury anyway. If the rapacious monopolist, rather than the moral leader, is the means of getting the consumer to do what he ought to do, that is, to refrain from consuming that which he ought not to consume, I do not know that we need to support a lot of government officials to suppress the monopolist in order to enable the consumer to consume at a low price that which he ought not to consume at all. We may agree that the monopolist ought not to get a high price for something which the consumer ought not to buy, but price fixing does not seem to be the obvious or the natural remedy. Something at least could be said for the prohibition of the luxury as against fixing its price.

Luxuries, however, shade off into necessaries. In the case of an article which is of the nature of a necessary, but one whose absence would make very little difference to us, a very delicate question in the balance of nature is presented. If the price is too high, we can refuse to purchase it, with some inconvenience but with no great hardship, either because there are many good substitutes, or because we do not care much for it anyway. In such a case, the price which even a monopoly could charge would not be very much above a just price. Let us grant that there would be an element of monopoly profit in the price, and that monopoly profit in any form is unjust and odious. Nevertheless, we would have to consider as rational beings whether it would cost more to pay the extra price than to support a group of office holders to repress the monopoly or fix the prices of its product. A large number or office holders interfering with us and exercising authority over us is also undesirable, not to say odious. It is a question of the choice of two evils.

There are cases, however, where the articles or the services offered for sale are such obvious necessaries that we are almost compelled to buy them. If they are offered for sale by a monopoly,

and our only alternative is to take them at the price offered or to leave them, this alternative does not provide us with a real remedy. Monopoly price in such a case becomes a means of extortion. One of two remedies must be provided: (1) give the buyer a real alternative, that is, give him an opportunity to buy the same or an equivalent article or service of some one else—in other words, introduce competition; or (2) delegate to some office holder the authority to use force, or threaten to use force, to compel the monopolist to sell at a fair price.

The latter is an expensive remedy but it may be the only one. It is expensive because the office holder and his staff are withdrawn from some form of production. The total production of the nation is reduced by the amount which would have been produced if the office holders had remained at work. Again, the fact that office holders have the power to fix prices and rates introduces a new question into politics. This sets a certain number of men to talking politics who would otherwise have been doing other kinds of useful work. More of the national energy is withdrawn from production and used up in political campaigns than would otherwise have been necessary. So much might conceivably be thus used up, and the national production so much reduced, as to leave the people less able to pay the reduced price than they would have been to pay the higher price. This, however, is a chance which we must take, or a cost which we must bear. It is merely another illustration of the well-known rule that everything we get has to be paid for. We must always compare the value of a service, even when performed by an office holder, with the cost of having it performed.

III

The ideally just price is one which will secure a balance between production and consumption. It should be high enough to induce producers to produce as much as consumers are willing to buy at that price. Stated otherwise, it should be low enough to induce consumers to buy as much as producers are willing to produce at that price. To fix a price higher than this is to induce producers to produce more than consumers are willing to buy, leaving unsold and unused a part of the produce of industry. To fix a price lower than the equilibrium price is to induce consumers to try to buy more than is produced, leaving some of them with none at all, or offering a price for something which they can not get at any price. An equilibrium price is the price which a price-fixing board would be compelled to seek. To fix any other price would

either leave some producers with a product on their hands which they could not sell, or prevent some consumers from getting something for which they were perfectly willing and able to pay. To prevent the first result, the board would have to be prepared to buy the surplus product of the producers. To prevent the second, it would have to be prepared to ration the consumers.

This equilibrium price which balances marginal utilities and marginal costs is the ideally just price because it is the price which secures for the whole community, made up alike of producers and consumers, the maximum surplus of utility over the disutility or cost. Any other price would perceptibly reduce this surplus, as could be easily illustrated by the use of the well-known utility and cost curves if such illustration were needed. This equilibrium price is precisely the price which competition on a free and open market tends to establish. If the price is so high that consumers will not buy the whole product, those producers who are in danger of having their products left on their hands will cut the price. If it is so low that consumers will try to buy more than there is to be had, some of them are certain to bid higher. An equilibrium price is not only the theoretically just price; it is the price which tends to establish itself on the free and open market.

A price-fixing board must either fix the same price as would be established by the forces of the market, in which case its work would be superfluous, or it must fix a different price. If it fixes a different price it will be wrong unless it can show that the market is not free and open and that therefore the equilibrium price could not be established without its intervention. To the objection that markets are seldom perfectly adjusted, the reply may be made that price-fixing boards are seldom omniscient, and those that are omniscient are seldom perfectly free from bias, prejudice, or selfishness. Unless it can be shown that the competitive processes are interfered with so as to prevent individuals from producing a given commodity and seeking the price which is offered for it, we must assume that the price will tend toward the just level. That is, if it is temporarily too high, or higher than necessary to induce a sufficient production, it will attract other producers, increase the supply and force the price downward. If it is not high enough, it will discourage production, reduce the supply, and force the price upward. No price-fixing board, even if endowed with omniscience, could possibly improve upon this as a method of price fixing. There is danger that it may think that it can, in which case it is absolutely certain to make a nuisance of itself.

PRICE-FIXING POLICIES OF THE FOOD ADMINISTRATION

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The short career of the Food Administration has resulted in revolutionizing, at least temporarily, the methods of marketing food products in the United States. Perhaps few economists who have not followed the bewildering succession of regulations, rulings, amendments, and substitutions which have succeeded one another from day to day, realize what a profound transformation has been worked in the nation's methods of carrying on the great business of food distribution. The price-fixing policies of the Food Administration have constituted striking experiments in a field heretofore confined largely to theory.[1]

At the outset it is important to make a distinction between basic price fixing and the regulation of prices by the control of margins. By the former is meant the actual fixing of price at any point in the line of distribution. Such a policy has a fundamental influence on the prices for which the commodity will be bought and sold at the various steps both preceding and succeeding the point at which price control is exercised. It is also clear that it tends to suspend to a considerable degree the influence of supply and demand on price, though not suspending the influence of price on supply and demand—a suspension that will be absolute at the point of price fixation, becoming less influential as the transaction is farther removed in the line of distribution from that point.

It is clear that merely fixing maximum margins for the several dealers who engage in the work of distribution may exercise some influence on the prices at which the product will be sold at the several stages of its movement; but the effect of this influence in restricting supply and demand ordinarily will be less weighty than that of basic price fixing.

Only in regard to a few classes of commodities has the Food Administration attempted to fix basic prices which suspend the

[1] The writer has had considerable opportunity to follow the development of the price-fixing policies of the Food Administration and, locally, at least, to observe some of their consequences. He has been Chairman of the Price-Interpreting Board for the city of Nashville and has had charge of this work for Tennessee.

direct influence of supply and demand on prices. Although the last mentioned kind of policy may be regarded as exceptional, rather than characteristic, in relation to the general aims of the Food Administration, it has attracted more attention and is better understood by the public than the more generally employed, though less radical, policy of controlling margins. Therefore, with the exception of a brief summary of the policy of basic price fixing, the greater part of the descriptive portion of this paper is devoted to the policies regulating margins.

Basic Price Fixing

Wheat is the only commodity of which the basic price has been determined absolutely and arbitrarily by government authority, although in several other instances, hereafter considered, basic prices have been established by agreements effected by the Food Administration with various agencies of production.

This exceptional policy with regard to wheat was especially provided for by Congress in the Food Control Act, the requirements of which are sufficiently familiar. In accordance with this enactment, the President, acting on the recommendation of the Food Administration, proclaimed a minimum price of $2.20 for number one northern wheat, Chicago basis. On this basic price a series of differentials was worked out for the various classes and grades and for the different primary and distributive centers of the United States. These prices have been extended to local markets by the subtraction or addition of the cost of shipment to or from the nearest large center, according to whether the locality is a surplus market or a deficit market for wheat.[2]

One important aspect of the policy has been that although designed originally to establish only a minimum price, it has actually resulted in the establishment of both a minimum and a maximum price, which are the same—that is, a practically invariable price. The necessity for this has arisen partly from the determination to prevent profiteering and partly from the fact that the complicated series of regulations with respect to the prices of wheat and the products thereof throughout the various stages of progress from producer to consumer made changes in the basic price difficult. For, not only has the Food Administration specified the exact margins that may be received by millers and dealers

[2] The basic price was subsequently changed to $2.26 on account of increase of freight rates, but in spite of continual political pressure, no further increase has been conceded.

for every important service in the manufacture and distribution of the several wheat products under various circumstances, but in the application of these regulations it has been the policy of the Administration to work out fair price schedules for each mill.

This price stability has been accomplished in several ways—partly by the judicial exercise of the enormous purchasing power of the Grain Corporation; partly by requesting the millers not to pay more than the minimum price for grain, at the same time agreeing to rebuy from the millers at a fair price all grain held by them in the event that the market was flooded by imports after the close of the war.[3]

As already noted, the policy of basic price fixing has been extended beyond the specific authorization by Congress—but undoubtedly in conformity with the spirit of the Food Control Act—by the policy of agreements effected by the Food Administration with producers.

In the case of sugar, the government had little power to fix prices to the producer of the raw commodity, for a large part of the domestic supply is obtained by importation, and prices for the domestic product are largely based on the price of the portion of the supply which is imported.[4] However, although the arrangements with the beet sugar factories, the Cuban and Louisiana sugar factories, and the sugar refiners have been made matters of agreement, the Food Administration has the power to regulate the margin received for manufacture except in the case of the foreign establishments.

These agreements have resulted approximately in fixing the farm prices, for the prices paid farmers for sugar beets and for sugar cane are largely dependent on the mill price of raw sugar, although the relation is more direct in the case of sugar cane, so far as American producers are concerned.[5]

After the base prices for the raw product were determined, the Administration was free to control the prices asked by refiners and subsequent dealers by virtue of the authority to prevent excessive

[3] "America's Grain Trade," address delivered by Herbert Hoover at the conference of representatives of the grain trade of the United States with the Food Administration Grain Corporation, New York, April 30 to May 1, 1918.

[4] The details of the agreements concerning sugar were so fully set forth by Professor Roy G. Blakey in a recent article that the present writer considers it unnecessary to repeat them. See *Quarterly Journal of Economics,* Aug., 1918.

[5] On account of the fact that contracts for the purchase of cane are based on a sliding scale varying directly with the price of sugar.

margins of profit. The result of the exercise of these powers has been the same as in the case of wheat. Practically unvarying prices have been established with differentials for costs of transportation from refinery or import centers to different centers of distribution, and fixed margins of profits for the various dealers in the trade. These prices have been changed only under authorization of the Food Administration. In consequence the retail price of sugar throughout the United States during the past year has been established at about 9 to 10 cents a pound, a price that has not been seriously affected by the extreme variations in supply that have occurred during that period.

A further extension of the policy of price-fixing by agreement has recently been made in respect to certain packing-house products. On August 16, 1918, the Food Administration held a conference with some forty packers who receive allotments of government export business. A schedule of prices for hams, bacon, and lard was agreed upon. Since the important packers of the country are included in the agreement, it is certain that the agreed prices will at least constitute a maximum which may not be exceeded by other packers.[6]

The effect of these agreements for the fixing of prices on manufactured food products is indirectly and within broad limits to determine prices paid to farmers—as, for instance, the prices of sugar beets and hogs. In the case of rice, however, the Administration has gone one step farther and effected an agreement as to the prices to be paid by rice mills to farmers. A less extreme proceeding is the agreements concerning the prices of prunes and raisins effected with the growers' organizations.

The Control of Dealers' Margins

The regulation of dealers' margins is based on the clause in section four of the Food Control Act whereby it is declared unlawful to "make any unjust or unreasonable rate or charge." The Food Administration has amplified this dictum by forbidding licensees to impose any "unjust, exorbitant, unreasonable,

[6] Circular letter 6-H-816, August 23, 1918. This arrangement has been revoked since the present paper was prepared.

Temporary agreements have also been effected with large dealers in cold storage eggs and poultry. Such an agreement effective in the large centers of distribution was arranged to continue until the spring of 1918. W. F. Gephart, "Perishable Produce under Food Regulation," *Quarterly Journal of Economics*, Aug., 1918, p. 625.

discriminatory, or unfair commission, profit, or storage charge."[7]

A considerable body of rules, both general and specific, for the definition of fair margin has been developed. These rules are unique both in their character and effect.

The general principle first adopted was that a margin is limited to a "reasonable advance over the actual purchase price of the particular goods sold without regard to market or replacement value."[8] This rule was subsequently modified so that "purchase price" read "average purchase price of all lots of the same grade and size of the same commodity in his possession or invoiced to him, not contracted to be sold."[9] This modification has to do with the determination of the basic price to which the "reasonable margin is to be added."

Considerable progress has been made in determining the meaning of the "average purchase price." "Purchase price" is not used in the literal sense of the net invoice price of the goods, but includes freight to the public railway terminal in the dealer's own town. When the dealer operates several branches, the "purchase price" must be figured separately for each branch.[10] For butter, eggs, and poultry, when placed in cold storage, the "purchase price," or cost, includes original buying price, transportation charges, storage charges, insurance charges, interest on the money invested at the current rates, during the period of storage, and actual cost of printing when butter is put in print form from tubs or cubes.[11]

Since it is clearly impossible for the dealer to calculate separately the purchase price of each particular lot of goods added to his stock and keep the same distinct as a basis of determining fair prices, he is allowed the alternative of averaging the "purchase price" of all goods of the same kind and grade. In the case of cold storage commodities only the goods placed in storage during a period of one month may be averaged. It is left optional with the dealer whether he shall average the "purchase price" of different brands that are of the same grade and size.[12]

7 *General License Regulations*, I-A-5.

8 *Maximum Margins on Sales by Wholesalers to* (1) *Retailers*, (2) *Importers of Beans and Peas*, (3) *Merchandise Brokers*, April 6, 1918.

9 *Special License Regulations*, XI-A-S.

10 *Special License Regulations*, XI-A-5-Note, and XI-A-5 a.

11 *Special Rules and Regulations Governing Dealers in Cold Storage Eggs and Frozen Poultry, effective March 2, 1918; Special Regulations Governing Manufacturers, Dealers, Brokers, and Commission Merchants in Butter*, July 19, 1918.

12 *Special License Regulations*, XI-A-5-and note.

In effecting the average, the "purchase price" of each lot bought is weighted according to the quantity, and the average purchase price of all goods on hand, weighted according to the quantity, is averaged with the purchase price of new lots similarly weighted.

It will be obvious that so long as the average is honestly effected it can not be used to increase the dealer's margin of profit provided the dealer observes the rules respecting the margin of profit. If, for instance, his margin per barrel is 50 cents, he would make the same gross profit whether he averaged or did not average the several lots. However, averaging will affect the level of price at which he sells, and his decision to average or not to average is likely to be determined by the state of the market and the policy of his competitors. However, in the case of butter, eggs, and poultry placed in cold storage, if the dealer averages any of the commodity put in cold storage during a given month, he must average all of the commodity placed in storage during that month.[13]

When no specific margin has been laid down by the Food Administration, the standard of reasonableness is the profit which the "dealer customarily enjoyed on the same commodity in the prewar period on an even market under freely competitive conditions."[14] Indeed, in theory this standard is applicable even when the maximum is specified. It was expressly stated that even the maximum margins specified by the Food Administration should be regarded as "guides only," and should not be considered to limit the general principle that the advance must be reasonable in relation to the customary prewar profit of the individual. In the very next sentence, however, it is asserted that "high margins, even if customary during prewar period, are not justifiable now."[15]

The confusion is evident. If the reasonable margin is the customary margin enjoyed by the particular individual in the prewar period, but an unreasonable margin in the prewar period may not be taken as a point of departure, we are thrown back on the problem of determining what was reasonable in the prewar period. In the next paragraph of the same document from which the above excerpts are quoted, an attempt is made to meet this difficulty by the assertion that "the reasonable margin for any particular dealer depends upon his cost of operation." Cost of oper-

[13] *Special License Regulations*, XX; *Special Regulations Governing Wholesalers, Retailers, and All Other Dealers in Cold Storage Eggs*, July 23, 1918.

[14] *Maximum Margins on Sales by Wholesalers to Retailers, etc.*, April 6, 1918.

[15] *Ibid.*

ation refers not to the general cost of operation but to the costs assignable to the sale of the particular class of commodity. Moreover, it undoubtedly indicates present cost, and not cost in the prewar period.

It will be clear that only a little progress has been made in determining what is a reasonable margin, for, assuming that the costs of operation have been properly allocated to the particular class of commodity under consideration—a difficult accounting problem and one which the Food Administration has frankly refrained from undertaking[16]—no criterion has been furnished by which to determine how much net profit the dealer should be allowed on the particular commodity.

There are evidences that it was intended to use the total net profit of the business in relation to the net profit for the prewar business as a means of deciding the question of "reasonable advances." In fact, the monthly reports which licensees were required to make until May 1, 1918, included the data necessary to determine the actual net profit of the business as a whole, as well as the margins on specific lots of commodities sold. It is apparent, however, that this would be a difficult standard to apply, and it is certain that little effort was made to apply it. So far as the writer knows, the expression "prewar period" has not been specifically interpreted. We do not know whether it refers to a single year or a group of years. If a business was operated at a loss in the prewar period, there is no reason why its losses should be perpetuated. On the other hand, as we have noted, the Food Administration has specifically declared that "high margins, even if customary during the prewar period, are not justifiable now."

The preceding analysis of the theoretical standards of fair price developed by the Food Administration may suggest a vacillating and confused mode of application. As a matter of fact, however, this has not been true. The accuracy of definition and definiteness of formulation requisite for rate regulation in peace times under the constant tests of the courts have not been neces-

[16] "Neither, the Food Administration nor any other branch of the government has prescribed uniform cost accounting systems for either wholesale or retail food distributors. The government has not, therefore, indicated how the licensee, in dealing with a commodity covered by the reasonable profit rule, shall dispose of cartage, interest, or other special charges; but it does expressly forbid the employment of such charges with the purpose, or with the effect, of increasing the licensee's profit above his own reasonable prewar level." *Special License Regulations,* XI-A-5-Note.

sary during the present emergency. On the one hand, there has been little disposition on the part of dealers to dispute the policies and decisions of the Administration; on the other hand, the Administration has been liberal in the enforcement of its policies. In general, it has been found impossible to deal with each individual on the basis of the status of his present business in relation to the prewar business. As a matter of fact, it appears that the Washington authorities were swamped with the monthly reports, and found it impossible to give them all the minute examination that was requisite to apply closely the theoretical standard of fair profit, not to mention the even greater difficulty of determining the prewar status of the business. Indeed, the congestion became so great that after May 1, 1918, the Administration abandoned the policy of requiring the detailed monthly reports from licensees.[17]

As a matter of fact, the Food Administration has developed specific maximum margins for the majority of the licensed commodities. These margins are determined largely according to the prewar standards customary in the trade. Little effort appears to have been made to compel the individual dealer to sell at a margin less than the maximum specific margin, irrespective of the relation of his present profits to his prewar profits. In general, only failure to abide by this maximum has been considered as "prima facie evidence" of a violation of the regulation governing fair profits. Consequently the regulations, as enforced, are not based on the net profit of the sale of a particular class of goods by the individual dealer, and they have an even more remote relationship to the net profit of the individual business as a whole.

With a few exceptions, specific margins for each class of wholesale dealer have been developed for wholesale dealers in practically all kinds of food commodities. Among the exceptions are fresh vegetables and fruits, live poultry, fresh meats, and fresh eggs. Margins have been fixed for dressed poultry, eggs, and butter, in cold storage, and, by a recent ruling, for fresh butter. Manufacturers' margins also have been fixed in the case of a number of important commodities, including the principal mill products and sugar. Cold storage warehousemen are required to report their rates for storage to the Food Administration, and changes can be made only by obtaining the consent of the authorities.

The Food Administration looks askance at discrimination in

[17] Circular letter, 6-H-612, June 12, 1918.

price as between individual customers. Usually, when maximum margins are specified, no distinction is made between credit and cash sales. Even when the reason for discrimination is due to the size of the order, discrimination is likely to be regarded as unreasonable. However, such discrimination is permitted in the case of some commodities. Thus, on mill products the margin varies according to whether the sale is in car lots, ton lots but less than car lots, or less than ton lots. It is probable that this makes possible considerable evasion through breaking up large orders into small units. For non-perishable groceries there is usually no variation in margin according to the amount sold, except that when original packages are broken the licensee is allowed the actual cost of repacking, not exceeding 5 per cent.[18]

The fixing of maximum margins would be of no effect as a regulative measure if dealers were left free to buy and sell the same commodity as many times as they pleased, for it would be easy to gain the speculative advantages of a rising market by selling to a colleague or confederate, or by selling and repurchasing at the selling price for subsequent resale. The Food Administration has attempted to prevent this evasion of its maximum margins by a series of regulations based on the cardinal principle that commodities must be kept "moving to the consumer in as direct a line as practicable and without unreasonable delay."[19]

However, there are a number of circumstances under which it is necessary for one distributor to resell to another dealer of the same rank in the line of distribution. The main principles involved in this aspect of food control may be illustrated by the general rules governing resales of non-perishable groceries.[20] The Food Administration recognizes several kinds of transactions in which a resale may result in a total margin of profit for both sales exceeding the maximum allowed for one sale. For example, a wholesaler who buys in carload lots may distribute the same among other wholesalers who for some good reason are unable to buy direct from the source of supply or who can not purchase in carload lots. The same privilege is granted a wholesaler who enjoys special or exclusive privileges of cold-storage warehousing. Likewise, a wholesaler may sell surplus stocks of goods bought in good faith for the service of his trade, which he has been un-

18 *Special Regulations*, XI-A-5, Note.
19 *Special License Regulations*, XI-A-5, Note.
20 Excluding sugar and mill products.

able to dispose of, the fact that he has warehoused the goods being an evidence of good faith. In all the above cases the first seller is permitted not more than one-half the maximum margin allowed for a single sale direct to retailers, while the second seller can add only the lowest of the margins allowed for that particular commodity. Only one such resale is permitted. The second seller must dispose of his goods to the retailer or consumers. Accommodation sales among dealers, known in the trade as "pick-ups," are permitted provided the two parties divide the usual margin allowed for a single sale.[21]

Likewise, regulations have been developed to prevent the taking of excessive margins by short-circuiting in the regular line of distribution while retaining the regular margins allowed, or by combination sales—that is, selling two or more commodities at a lump price.[22]

Control of Retail Prices

In November, 1917, the Food Administration inaugurated the policy of establishing "price-interpreting boards" in the principal centers of population. In May, 1918, the plan was enlarged with the view of establishing a price-interpreting board in each county of the United States. The boards are composed of representatives from wholesalers, retailers, and consumers.[23] In some states the organization is much more complete than in others.

The list of fair maximum prices thus determined is published weekly in local papers. It is also reported to Washington and to state headquarters. It is customary to quote prices that retailers must pay to wholesalers, as well as the prices to consumers. Because of the rapid spread of "cash and carry" stores, it is generally necessary to publish two sets of retail prices.

The Food Administration has sent to the chairman of local boards a list of retail price margins. These margins, however, serve merely as a guide for the local board. The latter is instructed not to exceed the maximum margin except when the circumstances are unusual, and not at all in the case of bread, butter, flour, sugar, and eggs.

[21] *Special License Regulations*, XI-A-5-Note, continued, (2).

[22] *Special Rules and Regulations Governing Dealers in Cold Storage and Frozen Poultry*, effective March 2, 1918.

General License Regulations, 1-A-23 (a). Exception is made for combination sales of substitutes for wheat flour.

[23] Circular Letter 6-H-529, May 17, 1918.

Legally the price-interpreting boards have no power to fix prices, for, with exception of those commodities for which basic prices have been determined by law or by agreement, the Food Administration's power over prices does not extend beyond the determination and interpretation of reasonable margins of profit for food manufacturers and dealers. If price-interpreting boards could fix retail prices, this would substantially amount to the fixing of wholesale prices, and, within narrower limits, would largely control the prices of farm products used for food. At most, the price-interpreting boards merely determine what prices are to be regarded as fair under existing local conditions. If a dealer exceeds the prices so determined, this may constitute a presumption of unfairness which will justify investigation.

As a matter of fact, the determination of prices by price-interpreting boards has had the approximate effect of fixing maximum prices, for local food administrators frequently regard the infraction of the published prices as evidence of unfairness.

Results and Conclusions

It is perhaps too early to attempt a conclusive statement of the results of the price-fixing policies outlined above. However, some of the results of the policy are now apparent, and the writer ventures to combine these facts with certain *a priori* observations.

In the first place, the experience of the Food Administration appears to indicate that effective government control of competitive prices of products of wide consumption is not only entirely possible, but subject to difficulties less formidable than economists have generally believed.

The surprising facility in enforcement of these policies may be attributable in part to a united sentiment of patriotism, further strengthened in its effect by a universal public condemnation of "profiteering." However, the real success has been due to the exceptional powers bestowed on the Food Administration. The power to license food manufacturers and distributors has conferred practically autocratic authority within the purposes of the law. As principal agency for coördinating purchases of food for government use and for exportation, the Administration has occupied so preponderant a position in the markets of the country that through its buying power alone it has been able to regulate prices, partly through purchases and sales and partly through using its power of purchase to induce dealers to conform to its

policies. Finally, as in its negotiations with Cuban sugar producers, the Administration has been able to rely on the international prestige of the government which it represents.

One of the most obvious effects of the policy of regulating dealers' margins is that it suspends the tendency toward a single price within the market. It is true that in ordinary times this is only a tendency, and from ignorance, inertia, and other conditions, the prevalence of a single price, even in wholesale transactions, has not been so general as sometimes may be indicated by discussions of value theory.

Whatever the prevalence of the one-price tendency in normal times, it is certain that the result of the margining policy described above has been to produce many different prices for the same commodity in the same market. Suppose that dealer "A" bought rice at 8 cents a pound, "B" purchased at 9 cents, "C" at 7½ cents, and so on; ordinarily, if the demand is strong enough to require the entire supply, the price will tend to be high enough to enable "B" to sell at a profit, the other more fortunate dealers making a still larger conjunctural profit. If the market is not immediately strong enough to justify so high a price, "C" will hold his fortunate purchase until the market advances. On the contrary, if the market weakens the price may be determined according to "C's" buying price, while his unfortunate competitors must suffer a speculative loss. However, when dealers are limited to a maximum margin, "C" can gain no more than his fixed margin by waiting, while, on the contrary, he risks a possible decline on the market. Consequently, he will be inclined to sell for enough to enable him to obtain his maximum margin. His less fortunate competitors have the option of selling at less than the margin—possibly even at less than cost—or of waiting until the low-price supply is exhausted, on the chance that the market may go higher.

It is quite possible that the market may decline still further, in which case the high-cost dealers will be even more out of pocket, besides incurring the trouble and delay of holding. However, during the present emergency the general tendency of prices has been upward. Consequently the normal situation in the market has been that the fortunate dealers who have on hand a supply purchased at a low cost occupy the center of the stage until the supply is exhausted, while their competitors calmly wait until the time when their high-cost supply may be sold at a fair margin of profit.

In the fixing of retail prices, however, there is necessarily a return to the one-price policy. Obviously a retail price-interpreting board, confronted with a considerable variety of whosesale prices in the same market, may be puzzled to know what price may be regarded as the normal basis of retail prices. In Tennessee the state food administration has determined that the lowest cost that will supply the market for the time being shall be the basis on which retail prices shall be determined. When the low-cost supply is exhausted, then the price may be increased to the point that will make possible the sale of an adequate supply.

However, when the policy of regulating margins is supplemented by a policy of basic price fixing, the lack of uniformity in wholesale and retail prices is considerably reduced, for a start is made from a uniform base, and a base that fluctuates at infrequent intervals. This has been true of sugar and flour.

One result of the margining policy is to eliminate the motive for speculation. A dealer can gain no more than his maximum margin when the market advances, while he must suffer a heavy loss when the market declines. It is doubtful if the Food Administration could have maintained this policy of unlimited loss and limited gains except in a time like the present when the normal movement of prices is upward.

One of the indirect consequences of the policy of controlling margins is the stimulation of independence and discrimination in buying, especially on the part of retailers. Since there may be many prices in the market instead of a uniform price, the dealer finds it no longer profitable to buy always from one or two dealers. The retailer who, on account of poor credit or for other reasons, must buy largely from one jobber is indeed in a sorry plight. From another standpoint, however, it has been true that during the present emergency there has been less necessity for care in buying. The continuous advance in prices has assured the dealer that sooner or later he may expect to obtain the margin allowed by the Food Administration.

A fundamental problem of price fixing is to determine the price that is just high enough to call forth sufficient supply to meet demand. When a uniform price is established, the price must be high enough to induce the marginal producer to furnish his portion of the supply. Such a price bestows a surplus return upon the producers whose expenses are lower than the expenses of the marginal producer. However, this merely results in giving legal

sanction to surplus incomes which would normally exist under ordinary conditions of competition.

In the determination of basic prices the Food Administration has followed the above-mentioned principle, striving to make the price high enough so that production might be in no way discouraged, even erring, if necessary, on the side of liberality.[24] For instance, the prices of beet sugar and of cane sugar were deliberately established at the level that would cover the expenses of the least efficient producers, although in the former case the range of cost was from $4 to $7 per ton.[25]

For regulating prices charged by wholesale distributors of food commodities the Food Administration seized the other horn of the dilemma by abandoning the policy of uniform price, substituting the regulation of dealers' margins, as described above, in order to eliminate excessive profits. Even in the regulation of margins, however, it has been necessary to make specific margins high enough to cover the expenses of the least efficient distributors —those with small turnover and high operating expense—besides a fair amount over for safety. Consequently the writer has found it to be the general opinion among dealers of his acquaintance that the margins fixed by the Food Administration are very generous. Moreover, in the interpretation of retail prices the efficient retailer is enabled to earn a considerable surplus in order that the inefficient retailer may not be forced out of business.

Recently another mode of escaping entirely from the well-known dilemma described above has been employed. A Sugar Equalization Board has been formed with a capital of $5,000,000 with the purpose to "absorb the high peaks of cost in sugar production and to make a small margin on the low cost of certain foreign sugars which may be purchased and thus secure an equalization of the price to the public on a lower level than will otherwise be possible."[26] In other words, the government acts as an equalizing agency whereby price is made uniform, while producers, regard-

[24] However, the Food Administration has from the first repudiated the idea of high price as an incentive to economy in consumption. See Thomas H. Dickinson, "A Year of Food Administration," *North American Review*, July, 1918.

[25] See Roy G. Blakey, "Sugar Prices and Distribution under Food Control," *loc. cit.*

[26] *Ibid.*

less of relative efficiency, are paid merely on the basis of cost plus fair profit.[27]

As a form of governmental control of competitive prices this method appears to offer a means of avoiding the disadvantages of other methods of price control by making possible uniform prices at lower levels than would obtain under freely competitive conditions. The method is clearly impossible as a means of controlling the price of wheat and other farm staples, because it would be necessary to ascertain the individual costs of hundreds of thousands of producers. However, even for such commodities the method might be used to equalize regional differential surpluses.

We now may venture to consider dispassionately the advantages and disadvantages of price control as a permanent policy, in the light of our new experience.

One of the immediate effects of price fixing in the case of wheat was to suspend speculation in futures on the boards of trade at the same time that the usefulness of such speculation was destroyed. The principal economic functions of such speculation have been to provide a means of hedging and to eliminate extremes of fluctuation by discounting future changes in conditions.[28] The stabilization of prices obviously renders these functions unnecessary.

It has long been a problem of deep concern how speculation might be eliminated without losing its economic advantages. There can be no doubt that the general sentiment of the country is overwhelmingly against organized speculation. The average citizen understands little of its advantages, and it is not easy to make him comprehend them. The consuming classes are inclined to attribute a large part of the cost of living to speculation on the organized exchanges, while the farmer is firmly convinced that they absorb a large part of his profit. Therefore, the elimination

27 President Van Hise recently suggested this method for the regulation of coal prices. *Conservation and Regulation in the United States during the World War,* prepared for the United States Food Administration. Coal prices are now based on individual mine costs plus a fair profit, without attempting to maintain uniform price.

28 It is not conclusively established that the effect of organized speculation is to reduce the magnitude of temporal price variations. Certain other advantages incidentally facilitated by organized speculation—namely, elimination of unnatural price differentials between localities and the creation of a wide, sensitive, and continuous market—may conceivably be effected by spot transactions without the aid of futures.

of the more important advantages of speculation by price stabilization is justified, at least in part, by the very positive advantage of allaying this long-established source of popular suspicion and discontent.

Price stabilization undoubtedly involves another positive economic advantage. It is undoubtedly true that farming is an exceedingly precarious industry, combining the uncertainties both of the weather and of prices. This precariousness becomes more apparent to the degree that the industry develops from self-sufficiency into commercial and capitalistic farming. The elimination of fluctuations in price after the crop is produced and the guaranty of price in advance of the crop season would reduce greatly the uncertainties of agricultural production and remove an important source of rural discontent. To some extent, also, a greater degree of certainty may be introduced into the business of manufacturing food products—now partially effected by hedging—as well as in the processes of distribution.

The disadvantages and difficulties of price control appear exceedingly formidable in statement, especially when basic price fixing is involved. It may be worth while to estimate their relative importance.

One of the most apparent is the impossibility of controlling prices—especially of farm products—without the process becoming a bone of political contention. The recent tremendous pressure for increasing wheat prices is a very convincing reminder of this danger—a danger which, to the writer's mind, constitutes the greatest objection to a policy of price fixing. However, the danger might be somewhat reduced by a definitely announced policy of balancing in the long run government losses and gains in the process of equalization.

Theoretically, it would be exceedingly difficult for government authorities to calculate a year and a half ahead what price will maintain the existing acreage and also insure the full consumption of a crop of very uncertain quantity. However, there are several mitigations of this difficulty. If the price is fixed too high, the government will find it impossible to dispose of the entire amount in domestic consumption. It would be possible to pay the farmer the guaranteed price and to lower the price to consumers, the government bearing the loss temporarily in the hope of making it up when conditions are more favorable. However, at the time the farmers begin selling their crops it is not always clear that the

reduction of price will be necessary. It is true, it would be difficult to lower prices after a part of the product has passed into the hands of manufacturers and distributors, without serious complications. In any case, the government can export the surplus, even though it may be necessary to do so at a loss. If the price is fixed too low, it may have the effect of discouraging production. This may or may not result in a crop too small to meet the normal consumption of the country, depending on weather conditions and other physical factors. If the crop should prove inadequate, authorities may resort to imports, although at a possible loss. It should not be forgotten, too, that difficulties mentioned above are considerably reduced by the reserve carried forward from one crop season to the next. This may be employed as a shock absorber. Supplemented by an intelligent control of imports and exports, it may be used to modify the effects of temporary or seasonal fluctuations in demand and supply.

Another difficulty is the effect of price fixing on the inter-relations of different commodities. Some farm commodities are used in the production of others. Certain products are substitutes for others, either in production or in final consumption. Even when prices are determined by competition these relationships are continually disturbed by frequent price variations. It is this fact, for instance, that makes the business of fattening beef cattle one of extreme risk. Fixed prices would make the conditions of productive use and substitution stable for a considerable period of time so that the producer could know what to count upon, and govern his action accordingly.

It appears that the principal advantage of leaving these relationships to be affected by competition is that, in case the normal relationship is seriously impaired by price changes, variations will occur in demand which will exert a more or less powerful influence toward restoring prices to the usual relationship. Thus, if corn rises in price so much that farmers cannot afford to feed it to cattle, the demand for corn for this purpose will decline. The reduction in demand may aid in lowering the price to the point that will enable feeders to resume its use. However, the use of corn for beef cattle constitutes only one of many sources of demand, which may prove so inelastic in other directions that the restoration of usual conditions will not be effected. In fact, under competition prices vary more largely on account of substantial alterations in supply due to weather, insects, and crop diseases,

both at home and abroad, than to any nice adjustment to relative food values or interdependent cost relationships.

The establishment of accurate price differentials between localities is a problem of great, though not insuperable, difficulty. There are large areas which are practically always surplus areas tributary to a particular primary market. Prices merely reflect prices in the primary market less the expense of shipment. Other large areas are always consuming markets, whose prices reflect closely the changes in a particular distributing market. Regions characterized by the above-mentioned conditions offer no peculiar difficulty in the determination of price differentials.

In many localities, however, the problems of establishing differentials according to location are not so simple. There are some regions which have a surplus in one year and a deficit in other years, according to the success of the crop. Again, there are regions which have a surplus in one season and a deficit at another season of the year. Barring miscalculations, however, this need occur only for products that cannot be stored. There are producing regions which do not always ship to the same primary market, the direction of shipment depending on variations of prices in different local markets. Such regions are located on the divides separating different market watersheds. Finally, there are consuming regions which do not draw supplies continuously from the same distribution market.

In statement the above variations sound exceedingly formidable. For the determination of prices, however, it is clear that the difficulty arises in connection with the attempt to maintain a uniform price level everywhere with necessary adjustments for local differences in supply as dependent on costs of shipment. Consequently, in a policy of price fixing involving a uniform price level to farmers followed by the regulation of dealers' margins, the necessity of regulating local differentials arises only at the stage when the uniform level is maintained—that is, the paying price to the farmers. After the commodity leaves the farmers' hands, price-fixing responsibility requires only the regulation of dealers' margins, leaving to the play of competition the adjustment of supply and demand between localities.

There has been much discussion of late concerning costs as a basis for the determination of agricultural prices—a discussion that has been brought to a head by the milk wars in New York and Chicago. The controversy has centered about the difficulties

of determining costs, especially the question whether products such as grain and hay used for feeding dairy cattle shall be counted in the final costs at their market value or at their actual cost of production.[29] As a problem of accounting, the question has but one answer: the accurate determination of the costs of a final result are possible only if intermediate processes are rated at their actual costs, and not at their values at the time of use.

Such an answer, however, does not settle the problem of public policy in price fixing, for such a policy is one of valuation—a question of fairness, not a question of methods of accounting. That materials produced by a business enterprise and used in the production of a subsequent commodity by the same enterprise should be reckoned at cost of production, and not at market value, is no proof that the resulting sum of costs is a fair basis of valuation, and assuredly it does not establish it as an expedient basis.

In the view of the present writer, a policy of agricultural price fixing should be opportunist and eclectic. As in the problem of determining railway rates, no single formula is adequate. The very difficulties of exact cost accounting are a proof of its inadequacy, especially in view of the fact that the costs of different producers vary widely. It is doubtful if any arrangement could be devised that would serve to determine in practice the location of marginal cost, even if conditions were static. Since the margin is constantly varying with changes in the volume of demand and the length of time under consideration, as well as because of alterations in methods of production and changes in the values of the various factors of production, it seems probable that cost would be even more remotely influential in agricultural price fixing than in railway rate-making.

It appears that an agricultural price must be high enough to induce producers to plant the acreage or keep the number of cows that experience has shown will furnish a certain quantity of the commodity under average seasonal conditions. The primary question must be what quantity is required. Obviously, the aim is not to satisfy demand, for demand varies with price. The problem is one of deciding what quantity will meet the normal needs of the country or region to be supplied. The second prob-

[29] *Cf.* especially H. C. Taylor, "Price-Fixing and the Cost of Farm Products," *Bulletin 292*, Agricultural Experiment Station of the University of Wisconsin; C. S. Duncan, "The Chicago Milk Inquiry," *Journal of Political Economy*, XXVI, Apr., 1918.

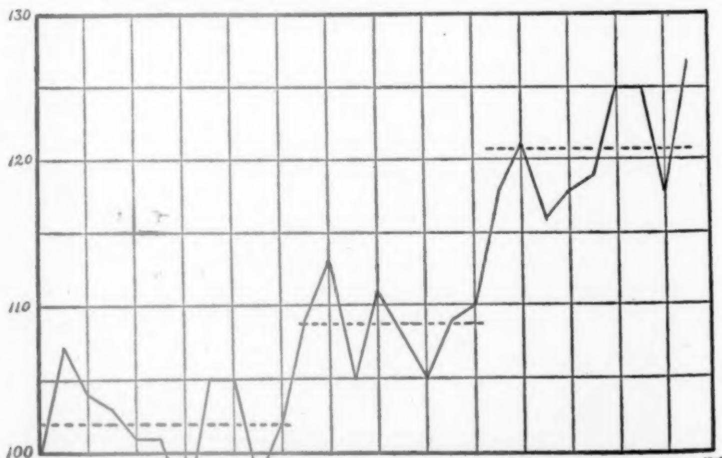
lem is to ascertain what price will cause the requisite acreage to be planted. Whether this price equals, exceeds, or falls short of the expense of production to so-called marginal producers, will be indicated by the result. It is doubtful if estimates of cost would serve as anything more than a general guide, indicating the general limits of policy. For particular years many producers may be sub-marginal or, conceivably, all may be super-marginal, according to the product per acre as determined by seasonal fluctuations, and it is not always the largest crop nor the highest price that brings the farmer the largest returns.

The writer is not convinced of the immediate desirability of permanent governmental control of the prices of staple foods, but he believes that our present experiences have demonstrated that the policy is not so absurd and impossible as many economists have been wont to believe. At any rate, the desirability of such control must be considered separately for each particular commodity, for the special merits of the policy will vary in each case, and the special difficulties will not be the same for all commodities.

E. G. Nourse.—My attention was challenged by the following sentence, which occurs in the version of Professor Warren's paper which was submitted in advance of this meeting:

"If the dollar were stabilized most of the clamor for price fixing in this country could have been avoided."

I did not catch these exact words in his address this afternoon, but throughout a considerable part of his discussion there is manifest the same tendency to assign "inflation" as the principal cause of price-fixing sentiment and endeavor. It seems to me that this idea is hardly consistent with the facts, nor, indeed, with other parts of Professor Warren's own paper. The price-fixing movement in this country has derived its chief and permanent emphasis from the desire to lower the urban cost of living, and this in turn has been, more than anything else, an effort to counteract the rise in the values of farm products. Even if the dollar could be stabilized, we should not thereby have solved this problem—a fact which is readily demonstrated by a graph of the prices of farm products stated in terms of a theoretically stabilized dollar. We all know that the average price of the principal farm products, as given by the United States Bureau of Labor, is now nearly twice what it was in 1890. If, however, the dollar be given the same purchasing power throughout the period from 1890 to 1917, we shall get some idea of the actual increase in the cost of living.



On the accompanying chart the index of all commodity prices is reduced to 100, and farm prices are all plotted upon that straight-line base. The *relative* price of farm products is thus seen to have been tolerably stable during the 90's, slightly advancing during the next decade, but markedly and persistently rising during the past ten or twelve years. The chart shows a natural division into three periods: the first, 1890 to 1900 inclusive, in which the average index is 102 (the dotted line on the chart) and the extremes are only 5 above and 6 below this level; the second, 1901 to 1908 inclusive, in which the average level stands at a trifle less than 109, with maximum variations at 4 points higher and 4 points lower than this average; and the third, 1909 to 1917 inclusive, averaging 121, varying from 116 to 127, and apparently showing an upward trend in its later years.

Here, to my mind, is to be found the central cause and purpose of the price-fixing movement in America and clear evidence of the fact that it is much more than a war-time issue. We have really been under the shadow of this problem since 1908-09, when the exchange ratio of farm products (not their mere gold price) jumped from 110 to 118, a point below which it has since receded in only a single year, 1911. This means nothing more nor less than that the exchange ratio between the indispensable food and textile products of the farm on the one side, and non-agricultural goods and services on the other, has moved in a direction counter to the desires of town and city consumers of these farm products. Among this large portion of our population there arose, about 1909 and has continued since, a tremendous desire to release themselves from the less favorable situation in which they were placed as a result of this readjustment of values. This motive had grown strong in the years before we became involved in war, but it had not become specifically a demand for price fixing, owing probably to our unfamiliarity with such a practice. Our entering into the war, however, brought this tool within reach of those who clamored for relief and had demanded vaguely that "something must be done." Such persons gladly acclaimed the simple, direct, and militaristic expedient of price fixing, and conceived an exaggerated notion of its efficacy and benefits. They did not stop to examine what were the fundamental causes which had brought about this altered market ratio of farm products to other goods. Professor Warren has referred to these underlying causes as pressure of the population on our food supply. I should prefer a different phrase, but there is no question of the fact that, with the passing of our virgin lands, an irremediable factor becomes operative toward the en-

hancement of the exchange value of our food supply. What the public should be brought to realize is that the ratio which maintained in the 80's and 90's was abnormal and ephemeral, whereas that of the present approximates much more closely the normal and permanent adjustment with which we must deal in the future. On the other hand, this does not mean that we must go from high to higher prices, and thence to famine prices and the retardation of our civilization. A suitably organized agriculture can secure such a measure of technical efficiency as to assure moderate prices of farm products throughout the longest discernible future.

Here, I believe, is the heart of the whole matter. Price-fixing propaganda has taken no account of the true situation and needs of agricultural producers and of the long-time effects of price-fixing policies. Mere pounding down of prices, while giving temporary relief, is in danger ultimately of enhancing prices by impairing the productive efficiency of our farmers. I am not unmindful of the good counsel given us last night by Professor Fisher, wherein he warned us against class bias in our economic thought and action. He mentioned specifically that the agricultural college teacher is in danger of becoming a partisan economist of and for the farming class. I have no desire to appear as the apologist for any class interest as such. But, on the other hand, to ignore the fact that there is an inevitable divergence of interest, of which the price-fixing agitation is a tangible expression, and hence to fail to meet the issue frankly and helpfully in its early stages, is to force it to come sooner or later to an open conflict between antagonized economic classes. Therefore, a word of honest caution may not be out of place.

Price-fixing agencies have shown too little understanding of the business of farming, too little desire to go to the bottom of the matter, too cavalier an assumption that the interests of city populations in lower prices must be met willy-nilly by the paring down of producers' returns. Such methods are not calculated to avoid class antagonism, but to make it inevitable. And furthermore, the very attempt to set the interest of urban consuming population above that of the rural producer is in danger of defeating itself. To be sure, "there are no more Iowas waiting for the plow." But new types of industrial efficiency in agriculture await the development of a farmer class who are adequately trained, suitably organized, and well equipped with the capital goods needed for the practice of scientific agriculture. The low prices of farm products in the later part of the last century did not permit of this progressive condition being brought about as

rapidly as could have been desired. Recent prosperity of the farmer has made possible a considerable development in this direction, but price fixing which will force prices back to those lower levels—that is, the exchange ratio rather than the mere dollar price—would defeat its own end by impairing the efficiency of agriculture and precluding the reduction in cost of production which would otherwise be possible. Such price-fixing notions as the public at large entertain are penny wise and pound foolish even from the standpoint of the consumer's best interests.

Professor Warren appears to entertain a low opinion of the power of price regulating agencies. I wish that I could share this belief in their impotence. If, in truth, price-fixing projects were powerless to depress prices whenever any natural force was inclining toward their enhancement, I should be a good deal less concerned about our future. But the war period has to my mind demonstrated a considerable efficacy on the part of these agencies, and the older period of agricultural unprosperity has shown a disquieting tendency on the part of our agricultural population to stay with the industry even when it is being crowded down to a position of unprofitableness, inefficiency, and a low standard of living.

If it be part of the economist's true function to furnish that sound counsel by which class interests may be kept from developing into divisive antagonisms and economic warfare, then it is to be hoped that our influence will be thrown against ambitious programs of price fixing as part of our after-war economic arrangements. While I believe that many of the activities of the Food Administration which have looked to the regulation of trade practices have had a beneficial effect, the net result of regulation as a whole has been to bring into clearer contrast the interests of the consumer and the producer of farm products. The Food Administration, by limiting traders' margins and regulating their methods, has, so to speak, publicly exhibited the middleman in a strait-jacket, and, in effect, has relieved him of the responsibility with which he was formerly charged, by both producers and consumers, for the high cost of living. This tends to draw the issue more clearly than ever between the farm producer and the city consumer. If their price relationships are left to be adjusted to the process of market bargaining, both parties will bow to the inexorable force of underlying economic influences. But if the arbitrary power to name prices be given to any executive or tribunal, and particularly if its personnel fall a little short of ommiscient wisdom and a quality of justness above the reproach even of injured parties, its exercise is bound to

engender open antagonisms, mutual recriminations, and, as already indicated, in all probability such short-sighted efforts to lower prices as to put in jeopardy the efficiency of our agricultural industry and in the end increase both the market and particularly the social cost of our food supply.

W. F. Gephart.—Any plan of price fixing by the government, whether in times of peace or war, should keep in mind the interests of producers as well as of consumers. Since the demand for price regulation has usually come from consumers, it has been the interests of this group which have usually been uppermost in the minds of those enacting price regulation. Certainly in this country, up to the time of the recent war, it was the consumer who had been primarily held in mind in our price legislation and regulation. There is some indication, however, that the necessity of taking account of production cost in any price regulations is being more clearly realized.

It is true that under any price-fixing system consumers can not be classified and a price established for each class, notwithstanding that the buying ability of consumers differs more widely and more greatly than the production cost of producers. Under free competitive conditions there is more or less classifying of buyers, and both goods and prices on them are made with this understanding in mind.

Price fixing by governmental authority involves standardization of price and hence of producers. There is undoubtedly in this respect a marked loss in that the product upon which the price is fixed represents to different classes of consumers varying acquisition costs.

Since, therefore, price fixing can concern itself primarily only with producers, the first problem which arises is to adopt some standard if the unit price system is decided upon as compared to a multiple price system. Let us examine some of the difficulties to be encountered in each system, both in times of peace and war.

The multiple price system would need to be applied, if adopted, to all commodities except those produced under monopolistic conditions. These latter conditions are so rare that they may be disregarded. The multiple price system involves first an analysis of costs in the various plants of the producers as well as of distributors, middlemen, and retailers. This at once suggests the impracticability of the system. There are so many different producers and distributors of almost every important commodity, scattered throughout different sections of the country, that an army of investigators and accountants would be needed to arrive at the cost of production in each plant. Even if such

a figure of cost could be secured, there are so many fluctuations of individual items in cost, as well as so many joint costs, that a fair result arrived at at any one time would soon be incorrect because of these changes.

It may be urged that producers and distributors could be grouped by sections, but the difference in costs of individuals in any one group would probably be as great as that of different producers in different sections. The whole plan of arriving at multiple costs is practically impossible and unworkable, whatever may seem to be its theoretical fairness to producers and consumers.

We therefore come to a consideration of unit price, either for the product as a whole or for it in certain established groups or regions. The questions which arise are: Which producer should be taken as a basis or standard? Shall it be the most efficient producer or the marginal producer?

In this connection there arises a leading principle of price fixing during conditions of war as contrasted with conditions of peace. During war times, especially in our recent war, a prime result to be secured was the keeping up and stimulating of production. In order to do this a price should be fixed which would encourage increased production on the part of the more efficient, but it also should be such as to keep in the market the supplies of the less efficient. It will, therefore, be found upon a careful examination of price and margin fixing during the recent war, that the margins established, or the actual price fixed, was so liberal as measured by the cost of production of the most efficient, that the result desired—namely, increased production—has been secured.

It may be inquired whether this result has been achieved at the expense of the consumer. Without being able to answer this question completely, it may be pointed out that there has been at least one undoubted gain for the consumer. This is that the price has been stabilized, and many consumers, in different sections of the country, where from time to time supplies have been short, have been protected from what otherwise might have been a quasi-monopolistic price.

A stabilized price is a kind of insurance, reducing risk both for producers and consumers. The fixing of the liberal price—a marginal producer's price—in war times gives a feeling of security and assurance to producers that is distinctly advantageous. They have only to think of the element of cost; that is, how to organize and carry on production so as to bring it as far as possible below this fixed price.

Likewise, from the viewpoint of the consumer, there is this kind of

assurance during war times when uncertainty is greatest both for consumers and producers. The fixation of the price discounts speculation by consumers, who are the most inefficient of all risk takers.

Furthermore, there is the psychological consideration that consumers will tolerate fixed prices and an empty market in war times, whereas they would rebel against unregulated high prices. In short, price fixing on the basis of marginal cost reduces risk both to producer and consumer in war times, and prevents unintelligent speculation on the part of each class.

It is true that in fixing a price or margin primarily on the basis of the less efficient producer, a wide margin of profit has undoubtedly been secured by the more efficient in a number of cases. However, if a war taxation system had been devised adequate to the situation, this result could have been counteracted by means of the tax collected by the government.

Price fixing on the above described principle has met surprisingly little objection from the trades themselves. This is due not only to the fact that satisfactory margins have been allowed, but also to the following important fact: in many of the businesses where price has been regulated, as, for example, in the food-distributing business, excessive competition has been the rule and price-cutting of all descriptions a generally followed practice. If, therefore, a disinterested party, such as the government, stepped in and proposed a fixed price, though this may not have been entirely satisfactory to all members of the trade, they were at least assured of stability and fair dealing because an established price or margin was enforced upon all groups of the trade. No commonly so-called unfair advantages could be taken. It was for each one to devise improved methods of conducting the business if he desired a larger measure of profit.

In this connection the question may arise whether a system of price fixing tends to discount improvements in methods of conducting business, due to the fact that in a certain sense guaranteed profits are assured. It is safe to say that such are not the results, for with any given fixed price the inducements to improve business organizations are quite as great in order that the production and selling cost may be as far under the fixed price as possible.

The results achieved in price fixing during the past war undoubtedly are far beyond the expectations of accomplishment of many economists in the prewar period. Nevertheless, we should not delude ourselves into believing that obstacles would not arise in peace times which are not met in times of war.

One of the most important factors in making any price-fixing system successful is such a system of inspection as will assure observance of this price. During war times there has been devised not only an extensive machinery of the government itself, to see to it that these fixed prices were observed, but there has also been that even larger army of volunteer inspectors on the part of the purchasing public and members of the trade. It is safe to say that in times of peace no such reliance could be placed upon such volunteer inspections. The government itself would have to organize a very large force to supervise the observance of these prices; and under competitive conditions, unless these could be absolutely guaranteed, there would be every inducement on the part of competing concerns to violate the regulations as to prices and margins.

Then too it must be realized that motives of patriotism actuate both the producing and consuming public, which are not in operation in peace times.

It should also be observed that information as to costs can be secured and agreements made more easily in war times than in peace. Any governmentally constituted body, made up of anything short of supermen, would find it an almost impossible task to determine at any one time the fair price of many articles upon which prices have been fixed.

It should be further realized that fixing the price of cotton, steel, and food commodities is much more complicated than that of arriving at a fair rate for public utilities, in which there are so many more static elements of cost. Food commodities are subject to many conditions of cost determined by seasonal factors, and the complexity confronting the government in determining the price of many of these articles would be overwhelming. The price that is determined by the normal competitive conditions of the market may be more safely trusted to be just for both producers and consumers than one arrived at by the activities of a governmentally constituted body of mere men.

Under competitive conditions, the activity of the producer, and the risk-takers, will more likely insure to the consumer the lowest possible price and the greatest amount of stability. Government insurance of a fair competitive price in peace times is a supererogation, for normal prices have already distributed the risk in an equitable manner.

ECONOMIC THEORY IN AN ERA OF SOCIAL READJUSTMENT

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I. *Introduction*

The place of economic theory in the coming generation will depend on what kind of theory is developed. Economic theory, like many another thing, will have whatever place it can make and hold for itself. There are two main ideals to be achieved. Economic theory should be actively relevant to the issues of its time and it should be based on a foundation of terms, conceptions, standards of measurement, and assumptions which is sufficiently realistic, comprehensive, and unbiassed to furnish a common meeting ground for argument between advocates of all shades of conviction on practical issues. This is not an ideal of scholarly detachment, for that may lead to studies that are inconsequential or irrelevant to the issues of the day. It is an ideal of scientific impartiality, which is a very different thing.

In a sense, all economic thought is "theory," but I shall assume that we are talking of a central body of thought, different from the multitude of special studies into which we are constantly reaching out, and giving a general view of underlying forces at work in the economic system as a whole. It may lay down principles to be applied in the special fields of study, furnish tools of thought or methods to be used in them, or an orienting interpretation of the world in its economic aspects which puts these special studies in their place and helps to show their relation to each other. Surely there is place and need for such a central body of thought if economics is to have any organic unity, and to be in any sense an organized force.

By comparison with this outline of the place of theory, what do we find? In the more general treatises we find two bodies of principle, in more or less thought-tight compartments, and distinguished in various ways. On the one side stands a body of thought marked off as a deductive system, dealing with the mechanism of free exchange in a perfect market and accepting the valuations made by individuals in such a market as its final measure of economic quantities. It searches for laws governing levels of equilibrium in such markets, and in this broad sense is static.

In its view of human nature and of social-economic institutions it either assumes them to be static or tries to frame its static statements so as to admit, passively, the existence of dynamic facts but make no further changes in the static statements and hence make no *active analysis* of dynamic forces and changes in human nature and institutions. This has much the same effect as assuming them to be static.

I include here the type of theory which takes human choices as it finds them in the market, without asking if they are rational, impulsive, or what not. Some dynamic elements enter in; for instance, the idea of a progressive standard of living, and some cumulative forces are recognized, such as the fact that poverty breeds poverty and that high wages may perpetuate themselves through increased efficiency. This body of thought centers around the theory of value and distribution and it may be broadly characterized as "value economics" or "price economics." Its ultimate measure of wealth is utility as reported by some purchaser in making a purchase.

Alongside this body of thought is another of a different character. Sidgwick distinguishes it as the "art" of Political Economy and sets it apart from the "science," though he regards both as parts of economic theory. Here belongs John Stuart Mill's discussion of property and communism, of land tenures and of the sphere of government, and also the Essay on Liberty. Adam Smith's treatment of public expenditures falls in this division, also a large part of J. B. Clark's *Philosophy of Wealth*, and the writings of Veblen and Hobson. Here belongs also the discussion of practical problems which commonly fills the last half of our textbooks, so far as it embodies principles not developed in the first half. This second division of thought I shall call "social economics."

Both types of study have their strong and weak points. Social economics has often been treated unscientifically, but the subject-matter is capable of scientific treatment. The very caution that led Sidgwick (in order to keep clear of controversy, be it noted), to speak of it as "art" rather than as "science" also led him to treat it in a way that is unmistakably scientific. Social economics lacks quantitative definiteness and coherence, largely because there is no yardstick of social value. On the other hand, price economics has only a limited bearing on current issues, just because it does accept the yardstick of the market, hedged and

conditioned as this yardstick is by the very institutions which economic theory is expected to interpret to a critical and iconoclastic world. The materials of price economics are selected, not with reference to furnishing a rounded interpretation of the business system with reference to the movements that are afoot in the coming era of reconstruction, but with reference to their capacity for fitting into a quantitative, deductive scheme of thought—a logical "closed system." Its chief bearing on the problems of the day is to serve to show reformers what they cannot do, and even here it speaks with less uncompromising boldness than formerly.

The center of theoretical interest at present is in price economics. If theory is to take its proper place, the center of interest must be shifted and price economics must become a subordinate part of social economics.

II. *Why Truth is Relative in Economic Theory*

The place of economic generalization lies in the realm of things useful, somewhere between a futility and an impossibility. It is impossible to tell the whole truth about the world and if we insist on summing it up under a simple formula, the only ones that can be one hundred per cent true are in the form: "Whatever is, is," a proposition whose futility may be camouflaged but not cured. For example, our old friend, the "economic man," is becoming very self-conscious and bafflingly noncommittal. Instead of introducing himself to his readers with his old-time freedom and confidence, he says: "I may behave one way and I may behave another, but what is that to you? You must take my choices as you find them: I choose as I choose and that is all you really need to know." The poor thing has been told that his psychology is all wrong, and he is gamely trying to get on without any and still perform as many as possible of his accustomed tasks. On the other hand, human behavior in economic life is so many-sided that a letter-perfect description of it, beside being unattainable, would be just as unwieldy as the uninterpreted world itself.

Somewhere between this futility and this impossibility lie the really useful statements of principle, those which are significantly true. Most generalizations are true, in some degree: likewise their opposites are true in some degree. But some are trivial, and some, depending on the state of the popular mind, involve no doubtful issues.

Among those that are really significant, some are significant

for one purpose, some for another. A careful thinker always wants to know for what purpose a definition is to be used before he will admit it in an argument. Marshall, for instance, admits that price does not measure marginal utility because some are rich and some are poor, but says there are many problems for which this makes no difference, because these problems do not involve a redistribution of wealth. On the other hand, I know a jurist who seems to think that the way to settle the question of public utility valuations is to get the economists to define "value" in the abstract, and then let the courts make what use they will of this definition. Perhaps tomorrow—*mañana* or in the millennium—we shall be able to frame abstract definitions and generalizations that shall be proof against misuse, but in the past they have mostly been framed with reference to particular errors or evils which they might serve to combat. This is obviously true of the myths and slogans that animate fighting parties, but it is no less true of the most carefully qualified abstractions. The qualifications recognize passively the existence of facts and forces which the abstraction does not actively interpret. For that reason new issues must bring forth new selections of significant material embodied in new myths, new fighting slogans, and new abstractions. It is this which determines the range of study in the "social science of business."

Indeed, the most one-sided parts of economic theory are not the parts that deal consciously with the question whether private enterprise is better than public enterprise in any given case, but rather the parts where they feel themselves to be abstractly and impartially describing the economic system "as it is." For here they are not on their guard as to the use or abuse that may be made of their doctrines. One of the best examples of this unconscious attitude may be found in Smart's "Second Thoughts of an Economist" where he says:[1]

> "What I, for my part, found in Political Economy was a science whose main object was not defence of any particular system, but explanation of how men, consciously and unconsciously, work into one another's hands, and get and give each his daily bread. I saw it analyzing what we do in the every-day life of making an income and spending it; gathering up facts into categories and generalizations; drawing deductions of what men in general will do in the future from observation of what they have done in the past. All this seemed to me as impersonal as anatomy, as the writing of history, as the observation of the tides—and as necessary."

[1] Page 5.

In other words, political economy does not defend the existing system but it selects for explanation the elements of coöperation in it, which are the elements that everybody approves of. The Austrian theory, which Smart presents, is relevant to these good elements in the existing system, and it is not *positively and constructively* relevant to any other side of the case. It is this highly selective and highly partial theory which Smart seems to have found as impersonal as anatomy and it does credit to his saving sense of relevance to the needs of humanity that he felt something lacking in this theory and was moved to step outside of its limitations in his last book. On the other hand, a writer like Veblen, who also thinks that his analysis of the facts of the existing system is as impersonal as anatomy, concentrates his attention on a different set of aspects and forces in the industrial world, and gets a result of a very different color.

Each generation of economists succeeds to a new assortment of practical problems to which its doctrines are to be applied. Let a man start with early mediaeval ideas of trade (to which one sometimes sees a certain tendency to revert) holding that one man's gain is *prima facie* another's loss; that the exaction of the best possible bargain (even though it be the equating point of supply and demand) is obviously evil, and that whatever benefit can come of private business must be sought, not because of men's freedom to seek their own interests but in spite of it, through the direct and omnipresent intervention of church, government, or gild. Let him also feel the hampering effects and see the abuses of such a system of control.

Now let such a person become aware for the first time of the wonder of tolerable, though unintentional coöperation in which the frankest selfishness yields surprisingly decent results through the efficient but unplanned organization that the exchange system carries with it. Let him note the genuine service rendered by the price that equates supply and demand, by noting its superiority to those crude attempts at regulation which are the only ones he knows. Let him grasp the element of mutual aid running through exchange and see its organizing possibilities. Let him contrast these with the crippling effects of those crude attempts at interference which will inevitably furnish his standard of comparison and therefore, unconsciously, will represent the zero point from which he measures the plus and minus quantities of social benefit and social cost.

Let him be gifted with a mind of interpretative force, and in what terms will he frame his interpretation? What will be the dominant abstractions of his system? Obviously, those which embody the facts that he has to present to an unseeing world. The validity of price as an economic organizing force is his contribution, not its imperfections. *The Wealth of Nations* was such a study. The worst abuses of the time were those of local and national regulation of industry, and the powers of individualism were tugging at the leash with no chance to show what they would do or how far they would go when they were set free. Adam Smith's entire philosophy was relevant to this situation in that it promoted individualism more strongly than any economist would do at the present day, when individualism has shown us what it will do for good and for harm and where it needs to be supplemented and where it needs to be restrained.

The old-fashioned economic man is one of the abstractions which express this particular side of the truth, though with an absoluteness not found in real life. It is a true conception as over against the errors of the Mercantilist theory, and it is equally true (in that it contains truth) as over against present-day criticisms of the purely negative sort that would sweep away all the standing body of theory and put in its place no equivalent, merely because the psychological basis of utility theory is at fault. The statement that value has nothing to do with utility is an error, and the arguments in support of it, drawn from the high value of diamonds and the low value of coal and water, are fallacious. As over against such a doctrine the conception of marginal utility, as the key to the relation between prices and wants, embodies a vital and important truth. But it does not embody all we need to know of the relation of wants to prices. Taken as a statement of the way in which consumption is guided, it is inadequate, and therefore any doctrine which takes it as the ultimate and absolute law of consumption is false, as over against more constructive statements based on a better attested view of human nature, amending the general case for free exchange in definite directions and furnishing a basis for needed and practical measures of constructive reform.

But such a conception as the economic man becomes more formalized and crystallized with the passage of time, and structures of deduction are increased upon it, becoming more elaborate and more brittle, long after its chief active purpose has been attained

in the freeing of trade from mercantilist shackles, and it has subsided into the more passive rôle of furnishing a *prima facie* case in favor of the competitive order as over against projects of revolution or fundamental reform. Meanwhile the new generations are arising.

What is their vision? The marvel of spontaneous coöperation is no marvel to them. Their textbooks have presented them with its concentrated essence in a purity more or less frankly unreal. This furnishes their intellectual point of departure. The direction in which the world about them departs from this formula is toward apparent variations from type, which fail to produce the expected efficiency and instead cause waste and social loss rather than pure mutual gain in the process of free exchange. The older student was interested primarily in the fact that prices do reach an approximate equilibrium. The newer is interested in the bad quality of housing accommodations as a disastrous and unnecessary phase of *laissez faire;* in the effects of seasonal fluctuations of industry as an imperfectly compensated cost of production; in the wastes of competition and in methods of diminishing them.

The older theorist had written down as his "balance carried forward" a theory of the pernicious effects of free enterprise, and such tolerably good tendencies as he discovered were clear gain. The modern theorist carries forward a theory of one hundred per cent efficiency for competitive institutions and is alert to all shortages, for they appear as a clear deficit. The conceptions adopted by the one embody the elements responsible for the harmonies he finds; those demanded by his present-day successor must embody also the qualities responsible for the many and various disharmonies, and hence must be at once less simple and universal and more realistic and particular.

III. *Some Tools of Social Economics*

The central problem of social economics is the organization of the economic forces of society to get and to do the things that are wanted. Price is of interest, not so much for its own sake as in view of the part it plays in this work of organization. Value economics is primarily interested in the determining causes of price; social economics is primarily interested in its function as an organizing agency. Since value economics analyzes this function *so far as market values may be taken as a gauge of social purposes and desires,* social economics must make its contribution by in-

terpreting the social values which market value distorts or ignores, and the resulting discrepancies between market value and a more comprehensive view of social values, between competitive efficiency, national efficiency, and perhaps world efficiency.

Some maintain that the study of these discrepancies is a matter of ethics and not economics, largely because it seems to involve sitting in judgment on individuals' wants and criticising the system of gratification because the wants that animate it are bad. But there is a great deal more to the matter than that. For example, in some places an owner of real estate can secure an "easement of light and air" protecting him against what would otherwise be an uncompensated damage to his property when someone puts up a high building on the adjoining lot. This damage to property is an economic fact where the owner is so protected, but where the law does not make such protection possible, shall we be told that this same damage is not an economic fact at all, but purely an ethical one? Such an attitude would stultify any attempt to make economics fully and actively relevant to social changes. It could not even report as a descriptive fact the existence of the value which the old system sacrificed and which reformers wanted to protect, until *after* the reformers had succeeded in protecting it. Such a report would be fatally biased by leaving out elements unfavorable to the existing order.

What are some of the conceptions that furnish tools for the study of social economics? Time permits only the bare mention of a few and one of the most far-reaching has just been mentioned. It is the conception of the inappropriables: of costs and services that are not fully compensated because our legal system does not or cannot surround them with the rights and protection that go with full private property. It may not be the part of economic science to assume to set a quantitative value on these things, but it is a very important part of its task to study them as economic facts which furnish the raw material for social valuations different from the valuations of the market.

Another important principle is the principle of alternatives, which states that values and costs must always be interpreted with reference to the range of alternatives that are open. This furnishes another reason why social valuations and individual valuations differ, because the range of alternatives open to society is different from that open to individuals. The individual may escape from costs that society has to bear, or *vice versa;* the indi-

vidual may choose under the pinch of want or under bad bargaining conditions, when it is not socially necessary that he should be confined to such a stern choice of evils.

Another principle is that economic effort is not merely guided by personal choices as they appear in the market, but itself guides those choices. The study of the institution of "free choice" from the educative point of view opens up an endless vista of fruitful study. The study of knowledge as a productive asset opens up another vista. Knowledge is different from material means of production, for it is inexhaustible, is generally not fully appropriable, and does not conform to the formula of marginal productivity as that is applied to the material forms of capital. Industrial morale is another tremendously important social-economic asset whose laws are largely unformulated. Then there is the possibility of objective standards of value furnished by science. Science can never dictate to humanity the choice of the ultimate ends of life, either individual or social, but it may determine objectively the value of means to ends where the ends are known, and it may serve, in this field, to revise individual values as they are expressed in a free market. Our present system of industrial priorities is a system of non-market values, recording judgment of the objective importance of things as means to winning the war or guaranteeing the absolute necessities of life to the peoples of the world. But apart from war or worldwide food shortage, the health values can be measured objectively by the medical profession, and it is a fair assumption that most people want health.

Social economics must try to distinguish things that are due to our existing institutions from things that are independent of them. To do this it is necessary to know something about institutions other than our own, including possible experiments that may be as yet untried. Thus the social economics of the existing order cannot be confined to a study of the existing order itself. For example, some form of accounting involving estimates of marginal productivity is necessary to efficient organization under any system, socialist or otherwise. But the exchange-value measure of productivity depends on private enterprise and the use of this gauge of productivity as the standard for distributing rewards depends on private enterprise and competition.

Finally, social economics should know something of social purposes, if it is to report on the effects of business in furthering or

thwarting those purposes and is not to confine itself to such purposes as are expressed *via* individual demands in a free market. We have lately had a stupendous object-lesson in the contrast between the economy best fitted to serve the dominant purposes of war and the economy naturally adopted by peaceable and democratic nations. This is only one example of an organic social purpose the promotion of which is not guaranteed by the type of efficiency that private enterprise promotes. Because it has not been oriented by a realistic and independent study of social purposes economic theory has seemed to be directed toward one limited set of social purposes, often stigmatized as materialistic, commercial and unworthy.]

IV. *Certain Stumblingblocks*

So much for the positive side: the principles to be followed. There are certain stumblingblocks in the traditional methods of theory: certain things to be avoided. One lies in the definition of wealth as consisting in objects of desire, limited in supply, appropriable and exchangeable. The danger lies in assuming that these characteristics are coextensive, and is illustrated by the fact that writers, in showing what they mean by things that are not appropriated, regularly cite examples of free goods. This directs attention away from those inappropriables which are not free goods and around which so much of economic policy centers.

Another thing of more than doubtful value is the tendency to treat human values and costs in the language of accounting. This tempts one to forget that costs in accounting are measured from an absolute base line set by the maintenance of the assets of the business intact. There is no such base line in human accounting, and the deficit economy is a human reality which the idea of a consumer's surplus fails to report. From this point of view the whole conception of "psychic income" is dangerous. Then there is the fact that the study of utility seems to be oriented by the question: "To what is value equal?" rather than by the broader question: "How does value function in relation to human wants?" Another stumblingblock lies in treating social efficiency as a sum of individual efficiencies. This is a mistaken outgrowth of a very true idea: namely, the idea that things serve society in proportion as they serve the individuals in society. The logical error is precisely the same as would be involved in arguing that a railroad line is well located because none of the locomotive engineers find it

worth while to run their engines off the rails in search of a better location. A final stumblingblock is the attempt to keep economics pure by avoiding the subjects of sociology, jurisprudence, ethics, psychology, and what not. This defeats its own end, if it goes so far that when the economist needs an assumption from these fields he manufactures it himself, for he is likely to produce an assumption that involves bad psychology, or bad jurisprudence, or bad sociology. He needs to have sufficiently close relations to these fields to borrow his assumptions from competent specialists in order that his own work may be in his own field of special competence.

V. *Conclusions*

If theory is moulded on the lines suggested, what will it look like? It will not be a complete set of finished doctrines, nor of quantitative laws, and will contain more qualitative analysis than quantitative. It will spend so much time in establishing its assumptions on a realistic basis that there will be less to spend in elaborating the minutiae of the laws that may be deduced from them. It will furnish the student with tools of thought rather than with the finished product; with knowledge of the general features of the institutions he is studying; and with principles of a widely varying sort, embodying many ways in which business affects human desires, directly and indirectly. Possibly its study of methods may go so far as to set up standards of scientific procedure in a field where work is now regarded as not genuinely scientific. Sometime there may be a recognized economic methodology which may occupy a truly central place in economic thought.

THE PSYCHOLOGICAL BASIS FOR THE ECONOMIC INTERPRETATION OF HISTORY

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The phrase, "the economic interpretation of history," is a condensation in a single phrase of a complex series of ideas. The complexity of the subject, the emotional setting of the material, and the descriptive inadequacy of the phrase, have led to a good deal of misunderstanding. The problem is, therefore, certainly first of all one of analysis. However, this paper does not attempt a general analysis, although the many-sidedness of the subject is realized. The purpose here is only to develop the psychological basis of one phase of the subject.

More specifically, the thesis is that the development of abnormal psychology within the past decade or so has developed a psychological foundation for the doctrine, hitherto lacking. In the first half of the paper this psychological foundation will be presented by setting forth certain mental mechanisms which recent researches in the field of abnormal psychology have developed. It will then be argued that these newly discovered mental mechanisms are the ones which account for the collective behaviour which we study under the title, "the economic interpretation of history." The latter half of the paper will consider certain illustrations of the economic interpretation of history, and will show how these same mental mechanisms operate in the collective behaviour of history, as well as in individual behaviour. And the claim will be made that, as a working hypothesis, the economic interpretation of history has been very greatly strengthened by these researches.

Earlier psychology, dating from Darwin and Spencer, not only did not provide such a psychological basis, but, indeed, furnished a distinct basis of criticism, which seemed to weaken the hypothesis. This psychology stressed the multiplicity and variety of the instincts. These instincts are usually listed in the hundreds. And the point of application to the economic interpretation theory was this. If man has these many and various instincts, why single out one, the desire for food, and build a whole interpretation of history on one alone? In other words, the economists were accused of using "bad psychology" in neglecting the other instincts. But one obvious defect of the criticism is the attempt to identify

the economic motive with the desire for food, or any one single instinct. For the economic motive, at least in modern times, is the desire for money or what money will buy, and money will buy not only material good, but satisfaction for nearly every instinct.

The older psychology also stressed the separateness of the instincts. Exposed to a certain stimulus, our reaction would be along the paths of one instinct; exposed to another stimulus, reaction would follow another instinct. And the instincts were sometimes thought of as being all of the same plane. These ideas, more or less carelessly applied, seemed to strengthen the criticism which considered the economic motive as simply one of many separate instincts. While the relations of the instincts one to another are by no means clear as yet, nevertheless the recent achievements in physiological psychology, particularly in this country in the work of Cannon and Crile, as well as in abnormal psychology, point distinctly in the direction of a considerable inter-relation and inter-dependence of the instincts. These relationships are such as to weaken the older concept of their being separate and on the same plane. In other words, it would now seem more permissible to think of the economic motive as harnessing in its train, at various times, quite a variety and number of the instincts.

But it is not along these lines of application that the major purpose of this paper is concerned. The major purpose is to set forth certain of the newly discovered mechanisms, the unconscious, the censor displacement, projection, compensation, the use of symbols and rationalization, which have been developed by Freud, Jung, Ferenczi, Adler, Abraham, Pfister, Blueler, Jones, Brill, Frink and others, and to show how the instincts function through them, and how these mechanisms offer an explanation of the social behaviour, called the economic motivation. In so brief a paper it will not be possible to define these concepts very fully, however desirable it may seem in dealing with such strange concepts and discoveries. I shall define the concepts in a few words and then give a few illustrations, not claiming in any case that the proof is developed in the paper. To develop a proof of a partichlar illustration often requires many pages or even a book. In the extensive literature are many cases of scientific treatment and proof. Some of my audience may not be familiar with the general background and material, and to these I will say that my experience in such events has been that some of the illustrations inevitably have seemed un-

convincing, but a further reading of the literature usually makes them appear convincing. It may also be that those who have been accustomed to dealing with subjects of such high dignity as state craft, trade relations of nations, or general economic conditions, will find that illustrations concerning sex and the behaviour of nervous women seem quite trivial. In anticipation, it may seem desirable to state that it is quite necessary to draw illustrations from these subjects, because such has been the field of the research which has developed them. And as to their triviality, such an attitude is unwarranted, just as much so as to consider monographs on the earthworm or the amoeba as being trivial. These psychologists are engaged in the important task of working out cures for insanity and in curing cases of nervousness, which are increasing at such a rapid rate in our modern life. They are concerned with the very real problem of lessening human misery and bringing happiness, and bid fair to do it just as truly as will be done by the increase of material possessions or the extension of political liberty. Indeed, the discoveries of Freud have many times been claimed to be as significant as the discovery of the theory of evolution by Darwin and Wallace.

While many of the illustrations are from abnormal personalities, it is very important to remember that the psychologically insane are considered to differ from the normal only in degree, and that therefore the study of insanity is analogous to the use of the microscope in the laboratory.

The unconscious.—A great many of our desires are unconscious. They function in such a manner that we are unconscious of their real nature. Many of these desires cannot be brought to consciousness without the aid and assistance of someone else. Some desires, though forgotten, do not die, but live on in an unconscious state. A vast amount of human behaviour is occasioned by unconscious motives. In some cases a series of repressed desires integrate into a sort of subconscious personality.

That unconscious desires may exist, is seen in cases of double or multiple personality, of the "Dr. Jekyll and Mr. Hyde" type. The case of the Reverend Ansel Bourse, cited by Hart,[1] and Janet's[2] Iréne are cases in point, as are the cases studied by Prince.[3] Dream analysis, as developed by Freud, furnishes abun-

[1] Bernard Hart, *The Psychology of Insanity* (1912) p. 49.

[2] Pierre Janet, *The Major Symptoms of Hysteria* (1907), p. 29.

[3] Morton Prince, *The Dissociation of Personality* (1906), and *The Unconscious* (1914).

dant evidence of the unconscious, as most of the dream material comes from the unconscious state. Another illustration, mentioned by Frink,[4] is that of a man who was exceptionally violent in railing against all manifestations of authority. The exceptional nature of his reaction was shown upon analysis to be due to a repressed feeling against a very dominating and authoritative parent; the repressed feeling, though long forgotten, had lived on in the unconscious since early childhood, and manifested itself in an exceptional rebellion against various forms of authority. The love of a woman for a pet lap dog is often the manifestation of a repressed, and, perhaps, unconscious, desire for children. These illustrations all bear evidence of a body of desires in the unconscious state. The fact that so many of our desires come from the unconscious, has been the occasion of comparing the process of their functioning to that of a magnet placed under a paper, upon which are placed iron tacks. The tacks move when the magnet is moved, but the magnet, the force which causes the tacks to move, is not visible.

Repression.—Many of the desires of the unconscious are there because they are *repressed* from the field of consciousness. They are repressed because of mental conflicts. In a particular case there is a conflict between perhaps two sets of desires, one of which may be antisocial, and the other may be highly in accord with the best moral tradition. This mental conflict causes pain and perhaps a loss of mental energy. Such a state of affairs is intolerable to the personality, and the mind acts usually according to what is called the pleasure principle, that is, it must find its pleasure in relief. The result will probably be that the antisocial desire will be repressed into the unconscious, in which it continues to live, though forgotten. Much forgetting is therefore purposeful. The particular repressing agency is sometimes called the "censor" or "censure." Thus, professional jealousy is sometimes so successfully repressed that one does not admit to himself its existence. Similarly, humiliating experiences, which are painful to remember, are forgotten, as has been often noted in unsuccessful love affairs which involve loss to one's hopes and ambitions, or one's self-respect. In these cases, if there was not repression and forgetting, the persons would suffer greatly from the pain of the mental conflict. The case of Iréne, previously referred to, although of a pathological nature, shows very clearly the phenome-

[4] H. W. Frink, *Morbid Fears and Compulsions* (1918), p. 149.

non of repression. This young woman nursed, during a long illness, her mother, to whom she was exceptionally devoted, and with whom her future was quite bound up. The mother finally died, under very trying and impressive circumstances. But for days at a time afterward the daughter seemed to be utterly unaware that her mother was dead. Then suddenly, perhaps during a conversation with friends, she would become transformed as it were, and reënact with consummate histrionic skill the scene at her mother's death bed, living it over in minute detail, all during which she would be oblivious to her surroundings. She would not hear, for instance, remarks addressed to her. In this case the thought of her mother's being dead was so unbearable that she repressed the whole complex from her mind, and most successfully, but the repression was not perfect, and suddenly the repressed material would come to consciousness and result in reënacting the deathbed scenes. Where conflicts are acute and intolerable, and the repression inadequate, the mind cannot stand the strain and insanity results. This analysis of the cause of psychological insanity is described by Jung,[5] in his analysis of a maniacal type, the archaeologist from the University of B———. Repressions of a minor scale go on through our daily life. Periods of very great repression occur in late childhood. Such desires as sex, pugnacity, or selfishness are often repressed; the repressing agency is usually the desires that accord with popular moral sanction.

The disguised activity of unconscious desires.—These repressed unconscious desires, though forgotten, do not die, but live on, and they endeavor to escape the repression. Thus, the force which repressed them in the first instance must continually keep watch lest these repressed desires break out into consciousness and express themselves. The "censor" acts, therefore, as if continually on guard. This "censorship" is not always successful, for many of the desires escape. This they do by disguising themselves, very much as a Mexican revolutionist who wants to buy ammunition may cross the border, disguised as a peasant working woman. The effectiveness of the disguises of repressed instincts explains why psychologists were not fully aware of them until the researches of the psycho-analysist appeared, and the illustrations which authors cite of these disguised desires seem so unsound, on first impression, for the very reason that the disguise is effective. These disguises which our motives assume are the central feature

[5] C. G. Jung, "Der Inhalt der Psychose" (1908).

of this paper, because of the thesis that the economic motives of history are disguised. A number of such disguises, therefore, will be presented in detail, to show their astounding ingenuity, their very great prevalence, and the ease and skill with which the human mind can perform these remarkable feats.

Displacement.—A repressed desire may escape the censor by displacing the true objective of the desire by a substitution. Thus Freud tells of a patient who was irresistibly compelled to examine the number of every bank note that came under her observation. She knew the act to be foolish, yet she could not help doing it, and suffered acutely because of this compulsion. Upon analysis it was found that she had suffered from an unrequited love affair. The conflict and pain which arose caused her to banish the painful chapter from her life, and she forgot. The repression was successful, but the compulsion neurosis appeared. Further analysis showed that a bank note played a significant part in this love chapter. So that although she repressed the desire, it was never dead, and made a partial escape through a displacement on to the bank note. This account and explanation appear very strange. Yet, that such explanations are true accounts, seems to be indicated by the fact that cases are cured after an unmasking of the disguise. A number of such strange and morbid compulsions have been similarly analyzed. A more ordinary illustration from normal behaviours, is that of affectation in dress or gait. Much affectation in dress is unconscious, as to the motive or particular desire expressed. One's egotism thus conceals itself in order to get by the censor, through a displacement upon the development of a peculiar mannerism. The term displacement is applied usually to displacement of words or word-ideas, chiefly in connection with dream analysis and such mental behaviour as wit, yet the term is being more widely used to cover a displacement on to another kind of activity in such a manner as to conceal the true motive. Thus, Frink[6] claims a child with a strong exhibitionist tendency may in later life make an actor on the stage. The exhibitionist tendency, being incompatible with current morals, is repressed in late childhood, and later finds an outlet through a displacement on histrionic activities. Similarly, Freud advances the idea, in his brilliant study of Leonardo da Vinci, that Leonardo's great scientific interest was a sublimated sexual curiosity of childhood. Some of the disguises here called displacement are truly marvelous, and certainly at first hardly believable.

[6] Frink, *op. cit.*, p. 146.

Symbolism.—The use of symbols as a disguise is a type of displacement, yet so prevalent as to deserve especial mention. How an emotion will in great strength become concentrated upon a symbol as an objective, is readily seen in love keepsakes, or in a national emblem, like a flag. There is, of course, in these two illustrations, little of a disguise of the emotion, except that in any moment of response to a symbol, the great, full knowledge of the emotion cannot, of course, be in consciousness. Many symbols, however, are complete disguises. Thus clinical analyses have demonstrated the almost universal prevalence of certain sex symbols, such as the snake, the sword, and horseback riding. I cannot here explain how these are sex symbols, but I only wish to state that all students of psycho-analysis agree that these are sexual disguises.

Projection.—Quite a different, though very important, type of concealment, is known as projection. In this case a person conceals a desire by projecting it on to others. To quote Hart, in his *Psychology of Insanity:* "Thus the parvenu, who is secretly conscious of his own social deficiencies, talks much of 'bounders' and 'outsiders' whom he observes around him, while the one thing which the muddle-headed man cannot tolerate is a lack of clear thinking in other people." An illustration from Frink's *Morbid Fears and Compulsions*[7] is that of an attractive young widow, who wished to move from a small town, claiming to be annoyed by the gossip that she was a "designing widow." There was really no substantial evidence of gossip, but upon analysis it was shown that unconsciously she did wish to remarry, but would not so soon admit the desire to consciousness, and the repressed wish expressed itself as a projection on to others. The reason of her peculiar disguise was this: the desire to remarry would have produced a conflict with her social code. To permit this secret wish conscious outlet would have resulted in abuse of herself, because of the social code. To spare herself this pain of conflict, she projected the desire on to the small town populace, where she could rebuke it, and at the same time spare herself the pain of her own mental conflict. Much of the phenomena of paranoia and insanity, involving delusions of persecution, have this specific otiology.

Compensation.—The analysis of the disguise known as compensation has been developed particularly by Adler in his book,

[7] Frink, p. 157.

The Neurotic Constitution. The idea is that a defect or weakness is compensated for by the development of another organ or trait, thus a leaky heart valve is partly compensated for by the strengthening of the heart muscle. It is observed that our emotions seem to occur in pairs, love and hate, fear and anger, humility and arrogance. An unusual desire of one of these pairs may be obscured by an exaggeration of the opposite, a sort of imaginary compensation for its absence. Thus we are sometimes unusually polite and courteous to persons we do not like, and our real motive is disguised. The absence of a friendly feeling will be compensated for by an exaggeration of courtesy. A very common form of compensation frequently seen in clinics among neurotics is an exaggerated concern for the health of a particular person, which serves to cover up a secret and, perhaps, unconscious wish of a contrary nature. A very good man, professing a religion of humility, will sometimes compensate for a repressed ego by a developed intolerance and arrogance in the name of goodness.

Rationalization.—Perhaps the most widely used disguise among normal persons is that of giving a fictitious, but plausible, explanation for conduct, instead of giving the true reason or motive, a device called rationalization. It is as though we do what we want to do, and afterward give a reason that is plausible to the opinions of others, as well as to the censor. And it is surprising how often we are ignorant of the true motive. Thus a man claimed to have voted for President Wilson because of the President's exceptional ability, but analysis showed the real reason to be the fact that the man was really unconsciously cowardly, and felt that Wilson had kept us out of war. A man will go fishing on Sunday because he wants to, but gives as his reason the fact that it is good for his health. Perhaps the most ingenious of all rationalizations are those of sufferers from persecutory delusions. I knew a tailor once, who thought enemies were going to do him harm. A bystander waiting in front of his shop was planning to burn his shop. A very generous customer would be spying. It was impossible to convince such a person by argument. The real reason of his fear was inward and unknown to him, and not the behaviour of the bystander or the customer. Rationalizations are as prevalent, though on a different scale, among normas persons as among paranoiacs. There are other disguises, such as *transference, identification,* and various distortion devices; but as they are seldom, if ever, found in disguising the economic motives of

history, I shall not illustrate them. It is hoped that the foregoing list of mental mechanisms will have shown the really remarkable and astounding feats which the mind will perform to disguise motives, and that the presentation will give some hint of their great prevalence in human behaviour. It is the scientific determination of these various disguises which is the great contribution of psycho-analysis for the theory of the economic motivation of history. For if the human mind so lavishly disguises our various motives, the theory that economic motives of history are disguised does not appear so incredible. Economists have claimed that sugar partly caused the Spanish American war, and Boudin[8] has claimed the selling of textiles made the peace epoch of the Gladstone era, while the selling of iron brought the warlike spirit of the present day. Whether these particular illustrations be true or not, they may not seem so incredible when we recall that a love motive finds an outlet in an obsession to examine the numbers on bank notes, and that a childish sexual curiosity finds an outlet in scientific research.

Turning now to the analysis of the economic side of the paper, it is claimed that the economic causes of history are in large part unrecognized, which means that they are at least partially disguised. Before considering the particular disguises affected, it is desirable to analyze what the economic motives are and why they are disguised. The economic motive is essentially selfish. Selfishness of course finds many other modes of expression than the economic. The analysis of this paper does not imply, however, that all economic motives are selfish, nor that every selfish economic motive is against the common welfare. Nor does the validity of the thesis depend on what particular percentages of our economic motives are selfish. That we tend to repress the selfish motive is readily seen when we observe that we are loath to admit a selfish motive but are proud to display an altruistic or a righteous one. The reason for this difference in attitude between so-called altruistic and selfish motives arises from the fact that a certain amount of subordination of self must be made for the common good. There seems to be thus a conflict between immediate selfish interests and the common welfare. The selfish tendencies are kept in bounds by what Ross and Giddings call social control, by what Trotter calls the herd instinct, and by what Sumner calls the mores. We can all see that if each

[8] Louis B. Boudin, *Socialism and the War*, 1916.

individual pursued self-centeredly and short-sightedly his own selfish impulses, group survival would be impossible. As to how and why this is so, we owe much to the researches of social psychology within the past decade. In society, therefore, there is a conflict between collective selfishness and group welfare. This social control or mores or gregarious instinct acts as a sort of censor, and represses a good many of selfish tendencies, and elicits praise for altruistic ones. Motives of collective selfishness are in a way repressed into the unconscious state. That is, we do not openly admit them, and the censorship is so great at times that we actually forget them. But because we refuse to recognize them or forget them is not proof that they may not exist. Certainly some of them live on and function in collective movements through disguises. In other words, the same mechanisms of conflict, censor, and disguise operate in the repression and escape of collective selfishness as were discovered by psycho-analysis to be so prevalent in sexual behaviour. The above reasoning sounds dangerously like reasoning by analogy, and suggests some of those ill-fated attempts of earlier days to apply the mechanism of physics to sociology. But I do not think that this is reasoning by analogy. In fact, I am attempting to show how two kinds of phenomena are based upon the same fundamental psychological mechanism.

It should also be noted here that there is nothing mystical in the working of these mechanisms collectively. No special entity, as the social mind, with special mental laws is implied. The way these mechanisms of individual persons work out collectively is somewhat as follows. In a particular population of say a million, there will perhaps be only several thousand who are selfishly and economically interested in a movement. These thousands being in positions of influence will be able perhaps to prepare "copy," so to speak, for the population, and large numbers who are not acutely affected one way or another accept the prepared opinions. Trotter[9] has shown that there is very much more accepting of prepared opinions by us than the most sophisticated of us suspect. And of these thousands who are economically interested, perhaps only a small percentage, say 10 or 20 per cent, or less, are clearly conscious of the true nature of their selfish desires. Perhaps 80 or 90 per cent or more, depending of course on the particular occasion or the nature of the movement, will

[9] W. Trotter, *Instincts of the Herd in Peace and War* (1917).

partially or completely disguise the economic motive by some of the processes outlined. These disguised motives will be much more readily accepted by hundreds of thousands of citizens not acutely affected. And thus we have the collective phenomena occasioned by the operation of individual mechanism.

Perhaps some may wonder how it is that in individual behaviour it is most conspicuously the sex instinct that is disguised, yet in collective behaviour the same mechanism appears to disguise chiefly the economic motive. This should not seem puzzling when it is observed that in history there is little group association for sex purposes, while there is a very great deal of such association for economic gains.

Having made this analysis and explanation, it is well to consider some illustrations. Consider the great spread of the "safety-first" movement. This movement is thought of almost entirely in its altruistic phases. It appears as a movement for group welfare. Yet there is an economic motive underlying it, for those who pay for accidents gain financially by the spread of the movement. And those who gain are in modern industrial society a very powerful group. In this illustration it is possible to advance the hypothesis that a selfish motive of the unconscious is expressing itself through the disguise of altruistic motives. Certainly the selfish motive is unconscious, that is, unknown to large groups of people. The popular conception of the motives is altruistic. That the selfish motive is functioning in altruistic clothing, is made probable by the fact that the safety-first movement arose shortly after the great wave of workmen's compensation acts, which culminated in their adoption by some three quarters of our states in a very brief time; and it did not arise prior to this time, although social workers had been pointing out the tragedy of some five hundred thousand or a million accidents a year for some time. From this illustration it will probably be quite clear that at least some selfish economic motives disguise themselves to escape the censor of social disapproval. We shall next consider some particular mental mechanisms by which these disguises are affected.

Displacement.—That some emotions of groups of people, as well as of individuals, are displaced in their objectives, has been shown by Max Eastman,[10] who has analyzed the idea of the scapegoat so prevalent among primitive peoples. He also points out that the I. W. W. have been made the scapegoat of the modern

[10] Max Eastman, *The New Review*, Aug., 1914.

world. In this illustration the emotion of national anger has been displaced. That economic motives may be displaced is seen from an illustration furnished by Mrs. Elsie Clews Parsons, a letter from Emanuel Downing to John Winthrop in 1645. "A warr with the Narragansett is verie considerable to this plantation ffor I doubt whither yt be not synne in us hauing power in our hands, to suffer them to maynteyne the worship of the devill which theire paw wawes often doe; 2 lie, if upon a just warre the Lord should deliver them into our hands, wee might easily haue men, women and children enough to exchange for Moores, which will be more gaynfull pilladge for us than we conceive, for I doenot see how wee can thrive untill we get a stock of slaves." It is true that Emanuel Downing did not in this letter disguise his economic motive very well, but very probably in a good many religious wars the economic movement has been obscured. Thus various modern historians have uncovered the economic factors in the crusades of which people had been largely unconscious. Engels[11] and Bernstein[12] have similarly pointed out the economic nature of the Reformation. Perhaps in these cases there was a certain amount of diguise of economic factors by displacement on to religious objectives.

Symbolism.—The displacement of the economic motive on to symbols deserves special notice. Such symbols are usually of a highly ethical nature. Thus the statute of liberty in New York harbor is a symbol, as indeed are the terms liberty and freedom, which furnish in connection with immigration at least in some cases disguised outlets to economic motives. During the past century the United States has prospered materially because of immigration. It has been called "a golden stream," because the need for labor and development was so great that the bundle of scanty clothing on the back of the immigrant was truly a bag of gold. But it will be interesting to see whether these altruistic symbols in connection with immigration will be as popular in the coming years when the country will have become more thickly populated. A careful reading of American colonial history will show that the terms freedom, independence, liberty, for which the Revolutionary War was fought had a surprisingly large number of specific economic determinants.[13] The Constitution of the

[11] F. Engels, *Der deutsche Bauern Krieg.*

[12] Ed. Bernstein, *Die Geschichte der Socialismus in Einzeldarstellungen.*

[13] A. M. Schlesinger, *The Colonial Merchants and the American Revolution* (1917).

United States is a symbol for the bulwark of our conservatives; and it is very probable that in cases where economic motives are responsible for the reverence for this symbol, they will be so quite unconsciously.

Projection.—A selfish movement may disguise its own selfishness by projecting it upon opponents. We do not see the beam in our own eye for looking at the mote in our neighbor's eye. Revolutionary radicals with the tremendous conception of taking the whole means of production, however praiseworthy their selfishness may or may not be, see chiefly the colossal crime of selfishness of the capitalists. Employers who are so selfish as not to provide the most elemental sanitation for good shop conditions are usually the ones who talk most of the selfishness of the trade-union. In many economic conflicts as between parties and countries, the selfishness of one contestant is obscured by emphasizing the selfishness of the opponent.

Compensation.—In economic movements of considerable selfishness in which no feeling of altruism seems to exist, this absence is sometimes compensated for by its exaggeration in an imaginary way. Thus throughout recent history the economic exploitation of primitive peoples has been compensated for by the fact that they were being brought the blessings of civilization. Also in some conflicts, the more ruthless the struggle the holier the cause.

Rationalization.—By far the most prevalent device, it seems to me, employed in disguising the economic motives of history is rationalization. This term is used, it is recalled, when a fictitious but plausible reason is given in the place of the real one. A somewhat humorous illustration is taken from Calhoun's *A Social History of the American Family*. Nearly a century ago a Mr. Gloyd of South Carolina made the following plea for the introduction of cotton mills: "Here will be found a never-failing asylum for the friendless orphans and the bereft widows, the distribution of labor and the improvements in machinery happily combining to call into profitable employment the tender services of those who have just sprung from the cradle as well as those who are tottering to the grave, thus training up the little innocents to early and wholesome habits of honest industry and smoothing the wrinkled front of decrepitude with the smiles of competency of protection." Other illustrations are the following. In the profit-sharing schemes of recent years the selfish motives of employers were rationalized, as has been pretty well shown in a number of studies.

Similarly an element of rationalization is found in the adoption of welfare work in connection with industrial establishments, and in the imperalists' argument the true motives are sometimes rationalized. These illustrations might be multiplied in great number, but enough have been cited to indicate the possible rôle of rationalization in social movements.

This concludes the presentation of the specific disguises of the economic motives, but I wish to recur to the phenomenon of repression for the purpose of showing how in the writing of history the economic factors tend to be neglected or omitted. It has been previously shown that repression operates in such a manner as to cause us to forget what it is very unpleasant to remember. Apply this mechanism, so clearly applicable to individual behaviour, to the writing of history. History becomes at once distorted because we choose to omit, that is, to forget as a social group, certain unpleasant events of history. The events we choose to remember are those in accord with the particular mores we encourage, and we tend to forget those opposed. It is the selfish economic events we wish to forget and the ethical we wish to remember. And, if a selfish event is so prominent it cannot be readily forgotten, we translate it, if possible, into ethical terms and remember them. In short, history is written by forgetting and rationalizing. For instance, the present generation recalls the Civil War as a war to free the slaves, a laudable ethical endeavor. Yet the freeing of slaves plays a very small part in the literature of the events preceding the war. There is a good deal of evidence to show that Lincoln freed the slaves as a war measure and with little previous moral planning, while the events preceding the war do show what many of us forget, the selfish conflict of two different economic systems. The application of this method of mental functioning is most important for our problem in accounting for some of the neglect of the economic factors in histories and helps to show why it is that when we look back over the panorama of history we see so much of religion, ethics, great men, politics, and so little of the economic factors.

In conclusion, it is well to state that the illustrations of the disguises of economic motives are of course not claimed as proofs. To prove the operation of a mechanism in a particular illustration would take a large number of pages or even chapters. The illustrations show what the proof is expected to be. There are, however, some special studies in economic history which go far

toward establishing scientifically these disguises. Particularly valuable, it is thought, have been the studies of Marx, Engels, Rogers, Lamprecht, Loria, Gabriola, Seligman, Patten, Beard. There is of course quite an extensive bibliography of the younger economists and historians who have shown the importance of the economic factor. Furthermore, it seems hardly necessary to state that it is not claimed in this paper that every collective movement is economically determined. There are social movements in which the economic motives play a minor and noncausative rôle, as, for instance, the social-hygiene movement and certain phases of educational progress and various others. It is particularly desired not to leave the impression that the functioning of these mechanisms can be reduced to a simple formula which can be applied in every case. At one particular stage of cultural development a certain movement will be rationalized, while at another stage a similar movement will not be rationalized. Some individuals in the same social movement will not disguise their selfish desire and others will. And of those who disguise their motives some will employ a particular mechanism and others will employ a different one. These variations are due to cultural antecedents and varying individual experiences. Past writing and criticism have shown the folly of over-simplifying the problem.

What is claimed is that recent psychological development has, if not discovered, at least charted fairly clearly and fully certain hitherto only casually observed mental mechanisms; and, what is most important, has shown how common is their use to all of us. And it is furthermore claimed that the nature and use of these mechanisms is such that they are used in disguising some economic motives of history and that there is some evidence to sustain this claim. The economic-interpretation-of-history school is thereby strengthened by new developments in psychology, as is also general economic theory. Specific proof of the operation of a particular mechanism in a particular social phenomenon depends of course upon a careful analysis and a detailed marshalling of evidence. And of course this branch of economics will be greatly benefited by many such studies whatever their conclusions may show. While awaiting these this paper claims that recent developments of psychology are such as to bestow considerable confidence in this hypothesis as a good working instrument.

THE PSYCHOLOGICAL BASIS FOR THE ECONOMIC INTERPRETATION OF HISTORY—DISCUSSION

F. A. Fetter.—It is remarkable and gratifying to those who have advocated the psychological approach to economic questions to see how dominant has become the psychological conception of economics in the discussions of these associations, as is abundantly illustrated throughout this meeting. Twenty years ago the old physical treatment of economics based upon the physical factors of production was still almost universal. Since then it has quietly and almost completely disappeared.

However, our conceptions have not fully adapted themselves to the changes in contemporary psychology. Conventional economics is still utilitarian and rationalistic, whereas the authoritative psychology of today is volitional and gives a much larger place to impulses and instincts. I need not in this company restate my own position, which has long been favorable to the psychological conception. Years ago I felt the need of revision of the price theory to bring it into accord with the accepted psychology of the day.

Professor Ogburn's attempt to exploit the newer psychology in applying it to the economic interpretation of history is to be welcomed but must be viewed critically. His propositions are three:

1. Human action is ruled more largely by unconscious impulses than by reason.

2. The Freudian hypothesis is to be accepted.

3. The newer volitional psychology lends verification to the economic interpretation of history.

May we not dismiss at once from this discussion the Freudian hypothesis? Professor Ogburn concedes that it is at best almost wholly irrelevant to this particular question as "there is little group association for sex purposes." Therefore it has little if any application to the economic interpretation of history. Moreover, the Freudian hypothesis is rejected by a large number of psychologists and philosophers of the best standing. Indeed it seems to be a psychology applicable mainly to degenerate minds, if not a degenerate psychology.

Of the proposition that our actions are ruled largely by unconscious impulses and not by reason, it must be said that it is doubtless true but that does not insure the truth of its application. For example, Lombroso's theory of criminology was a sudden inspiration to explain certain facts that had appeared in the study of criminals. After a half century of active discussion Lombroso's theory in its essentials

is absolutely discredited, at least in America, and all that remains is the body of facts on which he built. These facts now are being given very valuable applications in the treatment of criminals. So, likewise, we might refer to the discussion in the joint session of these two associations last year, in which the lamented Professor Parker presented the new psychology of impulses in a manner doubtless to be approved, but made certain most questionable applications to current problems.

Finally as to the application of the new psychology in support of economic interpretation of history. First let me dispute the assumption made by Professor Ogburn that the economic motive is essentially selfish. The economic motive has to do with the utilizing of economic agents in the best manner for a given end, and this may be either a selfish or an unselfish purpose. The mother sacrifices to get food for her child and this is the type of a very large part of economic activity. The good bishop in *Les Miserables* gives the candlesticks to Jean Valjean, an economic act, this being the highest use in his judgmut that he could make of those economic goods. We shall gain much in clearness when we cease to contrast economics and ethics as having to do on the one hand with selfish and on the other with unselfish actions.

Further we must reject the assumption by Professor Ogburn that the unconscious motives in history have always been the economic motives. This is a veritable begging of the question that we are discussing. One might well point to the origin of Marx's materialistic conception of history as an example of a biased explanation due to unconscious prejudice. Marx was a disappointed revolutionist who was championing the cause of labor and was seeking some philosophy that would support his practical agitation against the capitalist class. Therefore he reduced all the complex motives of history to one simple explanation. We have heard this same simple philosophy again and again advanced in explanation of the present war. The economic interpretation of history ignores the motive of love of power, the larger genus of which the economic motive is but one species. It omits love, friendship, hatred, ambition, pride, loyalty, idealism, and the many other complex motives in human nature, which always have had, and still have, their part in the making and in the interpretation of history.

We must continue to believe, therefore, that human nature is too complex to be expressed in a single motive, even one so large as the economic. It probably is true that we do not judge rightly our own actions, either individual or collective. Things are not what they seem.

Others, the outsiders and men of a later era, often can judge more truly of the motives of conduct than can the actors themselves. Therefore, while Professor Ogburn's suggestion may lead to fruitful studies, it is to be followed with caution, and calls for a special examination of the facts in each case to which it is to be applied.

THE INSTITUTIONAL APPROACH TO ECONOMIC THEORY

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I. *Introduction*

An explanation of the "institutional approach" to economic theory is a plea for a particular kind of theory. It is possible to come upon the same object from different angles; but more often those who take different routes chance upon different things. The "institutional approach" doubtless has some importance because it is a happy way to acceptable truth, but its significance lies in its being the only way to the right sort of theory. An appeal for "institutional economics" implies no attack upon the truth or value of other bodies of economic thought, but it is a denial of the claims of other systems of thought to be "economic theory." This, however, is no pointless struggle in method to be carried on by breaking syllogisms over concepts and by engaging in polemics over niceties in statement. On the contrary, it involves the very nature of the problems which the theorist should set himself; its real issue is over what economic theory is all about.

II. *The Nature of Economic Theory*

The thesis here set forth is that "institutional economics" is "economic theory." This involves putting a particular meaning upon a word which has meant many things. From the first, economic inquiries have gone pell-mell across frontiers at which they should have stopped; they have halted where logic would have pushed them forward; and they have been dominated by vacillating and conflicting purposes. To catalogue the subjects to which the term "economic" is applied is to belie the careful definitions of the science pent up in books; to find an economic theory consistent with this multiform expression is to dissipate that theory in polychromatic reality. In general, particular subjects such as money, transportation, and accounting have been set off from "general economics." From the latter two bodies of doctrine have developed which aspire to the dignity of "economic theory." One of these is primarily concerned with the origin and manifestations of value. It is represented by such treatises as Smart's *Theory of Value*, Boehm-Bawerk's *Positive Theory of Capital*, and Clark's

Distribution of Wealth. The concern of the other is the customs and conventions, or, if you please, the arrangements, which determine the nature of our economic system. It is represented in classical economics by Smith's account of mercantilism, Whately's discussion of how competition organizes industrial activity, and Mill's exposition of the relation of the state to industry. Typical examples from modern economics are Cannan's account of the function of property in economic organization, Veblen's discussion of the dependence of wealth upon machine-technique, and Hobson's analysis of the relations under modern technical conditions of work to welfare. Between the two lies the issue of what is economic theory.

Institutional and value economics have many things in common. Both can claim a line of development running back to early classical economics. Both have emerged as by-products of the play of the human mind with the practical problems of social well-being. Both furnish materials that can be taken into account in passing upon questions of practical moment. The champions of each insist that its task is the positive one of garnering materials and formulating principles. Yet in actual use each has the taint of mixing judgments of goodness and badness into exposition. Only in recent years has value theory escaped a formal association with *laissez faire* and now even its most positive statements bear in such terms as "utility" and "productivity" and in the wording of principles implications about the worthwhileness of prevailing arrangements. Likewise institutional economics, in telling the elements which make up the economic system, passes judgments upon them. It is not in the legitimacy of their claims to stand in the line of succession, nor in their pretenses to unbiased scientific statement, nor in their dispositions to stray away after ethical judgments that the two differ. It is rather in their conceptions of the nature of the economic order.

The claim of value economics to the dignity of "economic theory" is not lightly to be put aside. In common speech it is recognized as "economic theory." This is not the place for the chapter in the history of economics which recounts how the two rival systems strove for the dominance of classical doctrine, nor for the equally interesting one which relates how at the passing of the older system institutional theory was dissipated and value theory passed into the inheritance. It is enough that it is built around "value," which is the most important concept in the sci-

ence; it enjoys the prestige of the older body of doctrine; and that it is the most subtle, the most general, and the most articulate body of thought in economics. Yet its claim must be disallowed. Its merits are due to a failure to recognize the complexity of the relations which bind human welfare to industry. As our conception of the economic order has become larger and more intricate, value theory has hedged its problem about with greater limitations. At present its whole endeavor is an explanation of the nature of economic value and of the forms of income in which it expresses itself. The conclusions which it suggests about the kind of industrial society in which we live are indirect. They appear only because value theory is derived from the classical doctrine of the organization of industry upon the principle of free competition. Aside from such accidental statements, it is a specialized subject of inquiry with as little right to the dignity of "economic theory" as the theory of money or of accounting.

"Institutional economics" alone meets the demand for a generalized description of the economic order. Its claim is to explain the nature and extent of order amid economic phenomena, or those concerned with industry in relation to human well-being. In the words of Edwin Cannan, it attempts to tell "why all of us are as well off as we are" and "why some of us are better off than others." Such an explanation cannot properly be answered in formulas explaining the processes through which prices emerge in a market. Its quest must go beyond sale and purchase to the peculiarities of the economic system which allow these things to take place upon particular terms and not upon others. It cannot stop short of a study of the conventions, customs, habits of thinking, and modes of doing which make up the scheme of arrangements which we call "the economic order." It must set forth in their relations one to another the institutions which together comprise the organization of modern industrial society.

III. *Characteristics of Institutional Economics*

The case for institutional economics requires a reduction of the definition above to a catalogue of particulars. This, however, cannot be attempted here. Instead there will be presented for acceptance, for qualification, or for rejection a list of five tests which any body of doctrine which aspires to the name of economic theory must be able to meet. It is believed that institutional economics alone can meet these tests.

1. *Economic theory should unify economic science.*—The task of a general body of theory in any subject is to give unity to its investigations. At present economics is badly in need of such a unifying agent. Its sprawling frontiers reach from value theory across money, taxation, and transportation to salesmanship, insurance, and advertising. Each of these subjects has its own point of attack, its own method, and its own personnel. Those who seek truth in these remote fields of inquiry know little and care less for value theory. For all the constraints of neo-classical theory, each of these subjects tends to develop an isolated body of thought. As a result economics today tends to break up into a large number of overlapping but unrelated inquiries and to lose the unity which in times past has been its source of strength. The mechanics of value determination possesses no magic which will draw together such divergent elements. Only institutional economics can perform that service. In describing in general terms economic organization it makes clear the kind of industrial world within which such particular things as money, insurance, and corporation finance have their being. It shows their nature by pointing out the parts they play in this larger whole. Its statements, always tentative, always enriched by inquiries in particular fields, are properly the point of departure for such specialized studies.

2. *Economic theory should be relevant to the modern problem of control.*—Students of economics should spend their efforts upon subjects worth investigation. If learning were a mere search for hypothetical truth, the principles governing the economic life of cave men, the inhabitants of Mars, or of a Crusoe-infested island might be worth formulating. But economists are few, time has scarcity value, and relevant subjects come faster than they can be seized. It is not the place of economics to pass judgments upon practical proposals. But, quite in keeping with its scientific character, it can impartially gather the facts and formulate the principles necessary to an intelligent handling of such problems. Such relevancy has always marked economics in the periods of its most fruitful development. Thus Adam Smith's point of departure was the relationship of economic organization to national wealth; thus Ricardo's principles are an outgrowth of his concern with the currency and bullion controversies; and thus the best work of the Austrian school grows out of a refutation of Marxian socialism.

If institutional economics has a relevancy which neo-classical

economics has not, it is because problems have changed. Early classical economics was formulated by men who sought to remove the artificial restrictions which had been imposed upon industry. *Laissez faire* was a formal and explicit part of its statement. It tended to show the beneficence of an industrial system automatically organized in response to the pecuniary self-interest of individuals. It made the scheme of arrangements wherein lay the real organization of society a part of the immutable world of nature. Since the neo-classical doctrine has passed into the inheritance, the formal defense of *laissez faire* is gone, though it still lingers implicitly in terms and the statement of propositions. Formally it is concerned with the mechanical way in which the values of goods and of shares in distribution emerge in the market. But it has no concern with the organization of that market, the nature of the transactions which occur there, or the less immediate facts of the distribution of opportunity, property, and leisure upon which the size of these shares rest. Its explanatory terms are not matters subject to control.

A shift in problems and a general demand for control has made institutional economics relevant. This shift has been due partly to a discovery that institutions are social arrangements capable of change rather than obstinate natural phenomena, partly to a consciousness that activity, once apparently voluntary, is controlled by subtle conventions and habits of thought, and partly to the bad taste which *laissez faire* has left with us. But, however it has come about, there is a demand for an economics relevant to problems of control.

3. *The proper subject-matter of economic theory is institutions.*—The demand that economic theory relate to institutions is implicit in the plea for its relevancy. If it is to be germane to the problem of control it must relate to changeable elements of life and the agencies through which they are to be directed. Such elements of life and directive agencies are alike institutions. Control is exercised by modifying the arrangements which make up our scheme of economic life in such a way as better to satisfy our needs or our whims. Control is exercised through the peculiar agencies which we have at hand.

A control of particular aspects of economic life requires a knowledge of particular institutions. If one would deal intelligently with inflation, he must understand the organization of society in its financial aspects. This includes a knowledge of the

price system, the level of prices, the place of credit in industry, and the relation of the unit for measuring pecuniary values to the maintenance of the economic order. If one would understand the corporation problem, he must learn the peculiar features of this form of business, the various devices which together make up its organization, and the place which it takes in industrial society. And if one would pass upon any of the many proposals for changing things in such a way as to enable some of us to make more and others less, he must know the relationship of the things he would change to the distribution of income. It is not enough to assert with the neo-classicists that one receives the value of his services in the market; for, if matters subject to control are changed, he will still receive the value of his services, but he may pocket a different sum. He must understand, in addition, the conventions of competition, of contract, of property, of inheritance, of the distribution of opportunity which make incomes what they are.

In like manner a control of the development of industrial society is contingent upon a knowledge of the bundle of conventions and arrangements which make it up. The basis of material wealth in the machine technique, the scheme of natural rights which still inheres in the legal system, the resolution of all industry into a multitude of specialized and interdependent tasks, the rise of a complicated business mechanism which intervenes between wealth and welfare, the concentration of direction in the hands of an industrial hierarchy, the scheme of arrangements known as the wage-system, which is the means by which the laborer establishes a connection with industry—these and a hundred other things like them must be recognized by one who would direct, or, if he be an economic theorist, watch, industrial development.

4. *Economic theory is concerned with matters of process.*—If economic theory is to treat of institutions it must know both the kinds of things institutions are and the kinds of things they are not. Value theory deals with its phenomena as if they were physically complete, independent, unchangeable substances. The only variations which it admits are quantitative. At the beginning of one of its problems a certain situation exists; then a disturbing force makes its appearance; this is followed by a series of actions and reactions which continues until the normal is restored or an equilibrium is reëstablished. By adding or subtracting units from a combination or by combining equations, formulas are found in terms of which economic values may be reduced to pecuniary terms.

Such a method of procedure has, quite appropriately, been called "economic statics." Of late years a recognition of the limited number of problems upon which such an analysis throws light has led to a demand for an "economic dynamics." This, however, has served but to enlarge the older analysis by increasing the number of factors to be considered in attempting to understand problems. Both alike deal with physically distinct things; both alike reduce their problems to mechanical formulas; both alike find solutions in equilibria and quantities.

But the subject matter of economic theory cannot be handled in any such way. Competition, property, the price structure, the wage system, and like institutions refuse to retain a definite content. Not only are things happening to them, but changes are going on within them. A law, a court decision, a declaration of war, a change in popular habits of thought, and the content of property rights is affected. An increased demand for labor, a refusal of the nation to allow strikes, an enforced recognition of unionism, an establishment of wages upon living costs, and the wage system becomes different. Both by a change in its relation to other things and by subtle changes going on within, each of these institutions is in process of development. And, if this is true of particular institutions, it is likewise true of the complex of institutions which together make up the economic order. We need constantly to remember that in studying the organization of economic activity in general as well as in particular, we are dealing with a unified whole which is in process of development.

To this method the terms "historical" and "genetic" are frequently applied. The first, because of the associations which the word history brings up, is particularly unfortunate. It suggests an account of things which have happened to the subject of discussion during a definite period of time. Its emphasis is wrong because it is upon the accidental facts of past associations, not upon the essential nature of current reality. If it is rightly understood the term "genetic" is much better. But it must not be allowed to suggest a far-away, uninteresting, and irrevelant search for "origins." It must mean what the word so clearly implies that the thing is "becoming." Thus used the word "genetic" suggests, not a historical account, but a method of analysis. It goes to the past only with the end in view and so far as is necessary to explain what a thing is in terms of how it came to be. The economic system, which is so baffling and unintelligible to us, is not so much an interesting group of real things as a curious stream of tenden-

cies. Many of these move slowly, some of them seem immutable. Yet the whole complicated affair which we call Modern Industrialism has existed for a very brief period in human history. If control is to be exercised, it is not to be by tinkering with this or that. It must be by changing the nature or functions of the institutions which make up our scheme of economic life. To insist upon treating such things genetically or as in process is nothing more than to insist that they are subject to conscious control.

5. *Economic theory must be based upon an acceptable theory of human behavior.*—After all control and institutions and processes are immediate things. They can all be translated into terms of human conduct. The exercise of control involves human activity and leaves its mark in the changed activity of others. Institutions, seemingly such rigid and material things, are merely conventional methods of behavior on the part of various groups or of persons in various situations. The changes which processes reveal are merely changes in human actions. It is necessary, therefore, that economic theory should proceed from an acceptable theory of human conduct.

In the past economics has been fortunate in using a theory of conduct in harmony with the general thought of the age. It has been unfortunate in taking this unconsciously from the common sense of the times rather than arriving at it by careful observation and analysis. This has led to a disposition to preserve it as part of a traditional body of doctrine long after it had ceased to have meaning to those who had looked at it too critically. In no respect does neo-classical economics more nearly resemble the body of doctrine from which it sprang than in its theory of the individual who knows the alternatives with which he is confronted and seeks his own greatest material good measured in pecuniary terms. The one touch which the economist has added to the theory as he took it from the ethicist is in making a pecuniary expression of self-interest a part of human nature. The extreme individualism, rationality, and utilitarianism which animated eighteenth century thought still finds expression in neo-classical economics.

In its stead a theory of motives must be used which is in harmony with the conclusions of modern social psychology. At its best the older theory of conduct presented in self-interest nothing more than a blanket formula. One had to go behind it to find the concrete influences which animated the behavior of individuals. At its best it made all activity the result of conscious endeavor by

individuals who knew thoroughly their own interests even in an environment as complex as ours and who ruthlessly set out to attain them. It falls short of explanation because self-interest is not a simple thing that can be easily discerned, but a huge bundle of conflicting values wherein the present and the future are at variance. It assumed that each judgment could be based upon the real facts of the situation and could be made in detachment. It failed to note that my life and yours is a continuous thing, and that what I do today constrains my acts of tomorrow. It overlooked the part that instinct and impulse play in impelling one along the path of his economic activity. And, most important of all, it neglected the influence exercised over conduct by the scheme of institutions under which one lives and must seek his good. Where it fails, institutional economics must strive for success. It must find the roots of activity in instinct, impulse, and other qualities of human nature; it must recognize that economy forbids the satisfaction of all instincts and yields a dignified place to reason; it must discern in the variety of institutional situations impinging upon individuals the chief source of differences in the content of their behavior; and it must take account of the limitations imposed by past activity upon the flexibility with which one can act in future.

IV. *Conclusion*

The characteristics which have been discussed present a bare outline of the case for institutional theory. They all require explanation, elaboration, and illustration. Another champion would doubtless pick out other characteristics, such as the concept of society which underlies it, its freedom from utilitarian bias, its harmony with current tendencies in ethics, psychology, and politics, and the reliance which it places upon a scientific study of fact. But such things are implicit in the description given, which is typical rather than exhaustive.

It must be readily admitted that like the things with which it deals, institutional theory is in process. But it opposes the accomplishments of neo-classical theory with something more than mere promises. Here and there is much that can be fitted into a theory of the institutional organization of industrial society. Smith, Mill, Whately, and other classicists have given us much which with restatement can be used. The writings of the neo-classicists, even those of the type of Clark and von Wieser, are not without pertinent material. The English classicists, Marshall,

Pigou, Chapman, have materials for us; for in England the older economics has never lost the general concern which the Austrian and the American utility theorists have taken from it. The writings of the socialists, particularly Marx and La Salle, stripped of their application to proposals for reform, contain many a bit of sound analysis. In recent years the English "welfare school," particularly Webb, Hobson, Cannan, Tawney, and Clay—if writers with problems and approached so differently may be grouped together because of their common departure from neo-classical analysis—have made substantial contributions and have given the beginnings of a formal statement of a theory of economic order. American thought has lagged largely because efforts which in England have taken a constructive bent here have been spent in criticism of neo-classical doctrine. Yet H. C. Adams, Cooley, Veblen, and Mitchell—to mention only the leaders—have made substantial contributions to an understanding of our system. Nor must we forget the lay economist. In a rapidly developing society such as ours the learning of the schools tends to become formal and scholastic. It requires fertilization from thought which grows out of a fresh attack upon a new problem. The contributions of Graham Wallas may be mentioned as a single example of what the non-professional economist has to offer.

Yet, when all these contributions are amassed, it is doubtful whether at this time a general description of the economic order can be given. It may require a decade or more for a process of trial and error to produce a relatively consistent body of thought. Even then it will lack the clear-cut, definite, and articulate character of neo-classical theory. Its concern with reality, its inability to ground a scheme of thought upon a few premises, its necessity of reflecting a changing economic life, alike make its development slow and prevent it from becoming a formal system of laws and principles. It must find in relevancy and truth a substitute for formal precision in statement.

The future of institutional theory is uncertain. The history of economics suggests that survival has often depended upon the ability of doctrine to fit in with the habits of thought of the times. If the next decade demands formal value theory that avoids a discussion of what the economic order is like, institutional economics will fail. If it demands an understanding of our relationship to the world in which we live, it will survive. But survival will be assisted by the development of a theory of the economic order, vital, true, and relevant to the problems of the times.

ECONOMIC THEORY—DISCUSSION

WALTER W. STEWART.—I find myself in sympathy with the general point of view expressed by Professor Clark and Professor Hamilton, and since a discussion of methodology is chiefly an occasion for confessing the faith rather than for the purpose of making converts, I shall give very briefly my reasons for agreeing with them.

First of all, the approach to economic problems which they have indicated comes recommended by the most competent thought in the related sciences of psychology and sociology. The economist must avail himself of the conclusions of the workers in these other fields and his methods must be able to meet their criticisms. Value theorists have tried several different devices for meeting the criticism brought against their antiquated psychology. They have pointed to the confusion of counsel among the psychologists themselves; they have claimed that psychology did not matter for economics anyway; and they have changed the nomenclature of their hedonistic concepts. What is called for, however, is a thoroughgoing revision which will reformulate the problems and place the emphasis upon those neglected institutions which exercise a controlling influence over our economic life. The economist cannot do his work adequately by the use of a hypothetical human nature.

I agree, also, in their statement of the general problem of economic theory. The advantage of a clear recognition of the general problem by the economists working in the special fields is that as their work develops their results will come to constitute a coherent body of theory, organized around the central problem of control. In the work now being done in banking and in taxation, in problems of labor and of valuation, there is implied a body of principles which will make good its claim to be economic theory. The detailed analysis of the market, already made by value theorists, will find its place in such a body of theory, but instead of being studied in logical isolation the market will play its rôle along with the other agencies of control.

Perhaps this attitude towards the market as simply one of the institutions requiring analysis is the determining characteristic of institutional theory. Value theory, whether avowedly or not, has always been a search for the controlling causes which underlie the market process. The theorist has never been content to let the analysis rest on the merely pecuniary level, which he has regarded as superficial and circular. Institutional theory does not differ in this respect, but instead of a normal value or a social value to which market prices

tend to conform, institutional theory regards as the fundamental data for analysis such underlying institutions as ownership, inheritance, the standards of consumption, and the development of technology. These phenomena have not been overlooked by the value theorist, but they have been put into a separate compartment called "dynamics"; they have been relegated to a second volume; and have finally been left unincorporated. These rejected facts are regarded as fundamental by an economic theory of the institutional type.

In one respect I should like to supplement the suggestions made in the two papers read. In view of the scale and complexity of our present-day industrial society, I believe an adequate analysis of many of our problems can be made only by a union of the statistical method and the institutional approach. This means the use, in so far as the human material of the social sciences permits, of the method of the more exact sciences. If institutional theory is to save itself from unverifiable hypotheses and vague conclusions, it must be prepared to measure the processes of change wherever possible and to show quantitatively the correlations among them. The institutional analysis, in turn, will define more clearly the ends of economic endeavor and keep the statistical method from getting lost in meaningless measurements. "He who knoweth not what he seeketh understandeth not that which he findeth." The quantitative study of economic institutions I believe to be the most fruitful direction for the development of economic theory.

Lewis H. Haney.—I desire to say a few words of criticism of the papers just presented by Professor Ogburn and Professor Hamilton. Professor Ogburn's statement that economics deals with the individual as though he were entirely actuated by selfish motives is not correct, in my judgment. This assertion assumes that there is no alternative to altruism except selfishness. It is true that economics commonly assumes that the individual does not act in an altruistic way; but it does not assume that all individuals are selfish. For example, when the housewife and mother goes to the department store for the purpose of purchasing her Christmas gifts, she is acting as an "economic man," and will no doubt higgle shrewdly with the opposing clerk. Nevertheless she does not have her own interests primarily in mind, but those of the child and the husband. In order to make a transaction economic, it is only necessary that the parties thereto should not be primarily interested each in the welfare of the other.

Mr. Ogburn's paper is also open to the criticism of being based on a

materialistic philosophy. He regards the individual as a mechanical or behavioristic thing; something external comes along and pushes the button and out drops the reaction. I think it is safe to say that the philosophy of materialism has not been finally established; and until it is, any hypotheses built upon it must remain hypothetical. Even John Locke, while at bottom a materialist, had to admit "reflection" as an independent factor in the human make-up. I for one am not prepared to admit that there is nothing in the ego but a passive set of reactional capacities.

With regard to Professor Hamilton's paper, I would call attention to the fact that it seems to stand for about the same things that the historical school long ago stood for; and I believe that the so-called "institutional economics" will be no more fruitful now than it was fifty years ago. To be sure the emphasis of the institution was needed then, and it is doubtless well to emphasize it now. I believe, however, that Professor Hamilton will not be able to develop any laws or build a science, but that his proposal will merely lead to an ever changing description of an ever changing environment.

The paper seems to overlook the difference between economics and other social sciences. No one will deny that the various social sciences are closely inter-related; but many will hold that it is a wise division of labor that the economist should confine his attention to economic motives and economic values. There are different levels of valuation, so to speak—ethical, political, religious, aesthetic, and economic. There is ample room for a distinct and separate science of economics to deal with this last class of values.

I would appraise the episode created by this group of papers as being one of a long series of reactions against the tendency on the part of certain economists to reason too abstractly. This discussion may be regarded as a sort of "the morning after" the Austrian School.

B. M. Anderson, Jr.—Chiefly because my expectations were very high, I must confess to some disappointment in the degree of definiteness in what has been presented this afternoon by Professors Hamilton, Clark, and Stewart. I have looked forward for over a year to this session hoping that they would make clear precisely what they propose in the matter of the reorganization of economic theory. That they have new and significant ideas I am perfectly sure, because at those points where I understand them I recognize new and significant ideas, but I am still far from clear as to the full drift. I should like to ask them some questions. Are they proposing a new and exclusive

method of approaching economic theory? In proposing a new method, do they propose also to scrap the old methods? In particular, do they propose to abandon the methods of the static analysis,—the main body of price theory which has been elaborated by Adam Smith, Ricardo, Mill, John B. Clark, Fisher, Fetter, Marshall, Böhm-Bawerk, Wieser, and others? When they say that static theory is not enough, I find myself in full accord. But if they propose to scrap static theory entirely, and substitute for the notion of the equilibrium of contemporary forces a purely genetic or historical method, I am unable to go with them. The contrast which they emphasize between two types of economic theory is significant. It has appeared again and again in the history of economic thought under various forms which do not always run on all fours. Typical of this contrast would be the following: statics vs. dynamics; the cross section view vs. the historical or genetic view; the theory of goods vs. the theory of prosperity; long-run vs. short-run laws; normal vs. transitional tendencies; temporal vs. logical priority; causation as a temporal sequence vs. causation as timeless logical relationships. The contrast, however presented, is fundamental. Neither term of the contrast, however, gives us a complete picture of the economic process. We must have a higher synthesis which will bring the terms of these contrasts into relation to one another if we are going to have a unified science of economics.[1]

No doubt the static analysis has been more fully worked out than have the dynamic tendencies. Probably more will be done in the next generation in the development of new dynamic theory than in the development of new static theory. I am convinced, however, that it is possible to generalize statics and to generalize dynamics in such a way as to make it possible for us to look at most problems from both points of view.

I venture to suggest, moreover, that the gentlemen who have presented the doctrines of the new school to us this afternoon are in fact good static theorists. They make use of the principles of the static analysis in their own work. I would refer here specially to Professor Clark's work on railway rates, though all three of the gentlemen have from time to time been guilty of this archaic mode of thinking! Professor Mitchell in his *Business Cycles* has largely dispensed with the static analysis, as the problems with which he was dealing lend themselves peculiarly to a different method. Professor Veblen has made

[1] I venture to refer to Chapter XXV of my *Value of Money* called "The Reconciliation of Statics and Dynamics" for an elaboration of this notion.

large use of the genetic method, but he has also, I think, employed static notions very freely, particularly in his *Theory of Business Enterprise*.

I think there would be little dissent from the proposition that the old historical method of the Germans, where exclusively pursued, has given us few new significant generalizations. Knies would be listed as one of the leaders of the German historical school, but his influence has been greatest through his book on *Geld und Kredit*, which is largely theoretical and in a considerable measure static.

In conclusion, let me urge that, whatever constructive program may be laid down by the new school, they do not take a negative attitude toward methods which they themselves prefer not to use. Men's minds differ greatly, and the tools of thought which are useful for one man may not be useful for another. The real test of methodology must be the product in causal theory which has fruitful application.

Rejoinder by J. M. Clark.—Professor Fetter claims that I do not understand static theory in that static theory emphasizes its own limitations. Nobody realizes more clearly than I do that as compared to theory which is unconsciously static, any theory which announces its static character takes a long step in the right direction. But a sign which announces: "This happy valley is not the whole world" does not take the place of explorations outside the happy valley, no matter how many exclamation points there are on the sign.

One of the speakers protests that we must not scrap static doctrines. Nobody has proposed to scrap static doctrines, and in my own paper I spent some time showing that, by the pragmatic standard which I am advocating, these doctrines have a large and important measure of truth, for certain limited purposes.

In reply to Professor Anderson's question as to what I am really driving at, I consider that I am continuing the work which my father undertook, of developing dynamic economics, but that we differ as to method. Instead of starting with static doctrines and modifying them to allow for dynamic elements, it seems to me necessary to start with the static premises and revise them. The change that results is well characterized in his own book, *The Philosophy of Wealth*, in a passage where he is speaking of the effect of introducing a correct "anthropology" (or psychology), and says that it is rather chemical than mechanical.[1]

[1] I should like with the editors' permission, to reply under "leave to print" to one point to which it seemed difficult to reply on the floor, because it concerned the character of my own writings. Professor Anderson says that

In connection with Professor Ogburn's paper, there has occurred to me a hypothesis which would support a different interpretation of the material he presents. Suppose that an underlying fighting instinct, or a race antipathy or for that matter even a carefully cultivated resentment, is in conflict with standards of conduct which condemn wanton attack. The suppressed and perhaps unconscious longing for a fight can only be rationalized if some motive for fear or hatred is discovered, and some such *casus belli* becomes a necessity. Economic rivalries will do (even though the stakes are absurdly small compared to the costs of the game) if their importance is magnified by vague phrases like "A Place in the Sun." In such a case means and end would be reversed when the people came to explain their action. "A good war justifies any cause." Is there not possibly a good deal of this in the psychology of those masses who support a war, as over against the relatively few who stand to gain directly and substantially?

Professor Hamilton and myself have not produced anything that gives a sample of the method we advocate sufficient to justify the stand we have taken. The criticism seems somewhat irrelevant. My claim is that the principles I have named are tools that workers in social economics actually use. I have found them at work in many books in practical subjects in many and varied forms. I have also found the disregard of them responsible, in one form or another, for a large part of the bad thinking on such subjects. As for my own articles which attempt to develop and use these principles, I know that Professor Anderson has read some of them, but I infer that they must have been among those very painful experiences which Professor Ogburn says we tend to forget.

THE "OPEN DOOR" AND COLONIAL POLICY

By William Smith Culbertson
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The principle of the open door does not imply free trade nor even low or revenue tariffs. It implies actual equality and uniformity of treatment in import and export duties, harbor dues, customs regulations, distribution of raw materials, and opportunities for investments or concessions. It may be made applicable in any dependent colony or even in a country, such as China or Persia, where outside governments are backing the commercial and financial interests of their nationals in their competition for trade, investment, or concessions.

Old and New Colonialism

The old colonial system of the sixteenth and seventeenth centuries was based on monopoly, exclusion, and the "closed door." Colonies were conceived to exist solely for the benefit of the mother country. Mercantilist statesmen looked upon them as a means of enriching the nation. The mining of the precious metals was encouraged. Navigation laws made colonial shipping a national monopoly. Colonies were required to sell their produce to, and to purchase their supplies from, the mother country. Trade and colonial rivalries developed into wars. The British fought successfully in turn the Spanish, the Dutch, and the French, and laid the foundations of a great empire. It was an age full of heroic achievements but ruled by ideals of combat and dominance, which can find no place in any just plan of world affairs.

The latter part of the nineteenth century witnessed a revival of colonial policy as epochal as the old colonialism. It came as one of the results of the later phases of industrial revolution. Mechanical invention and business organization increased production; goods were exported to foreign markets; capital accumulated and sought investment. Colonies, protectorates, and spheres of influence became desirable. Politics began to interest itself in the commercial and financial conditions of distant countries.

When this revival of colonial interest began, Great Britain discovered that she had under her flag some of the most desirable parts of the earth's surface. France retained only a shadow of

her seventeenth century empire. The colonies which the Dutch, the Portuguese, and the Spanish still held were but remnants of their former domains. But there were large portions of the world uncontrolled by any great power. South America was closed to European political interference or control by the Monroe Doctrine. Africa offered the greatest opportunities for colonial expansion and its partition began. Great Britain enlarged her possessions. France again became a great colonial power. Leopold of Belgium, the Italians, and the Germans, each obtained a share of the dark continent, and the Portuguese renewed their interests in holdings and claims neglected for years. Nor did the islands of the sea nor Asia escape the colonizing fervor. Oceania was taken over and the integrity of China, Persia, and other Asiatic countries threatened.

Declarations in Favor of the Open Door

The Berlin Conference of 1884-85 met for the purpose of adjusting the rivalries of nations in the Congo Basin. Its significance in our discussion is that it emphasized the importance of the open door in international relations. France and Portugal had been competitors in the Congo and the African International Association had at the same time tried to establish an independent dominion. Fearing the encroachment of her rivals, Portugal sought British support and negotiated a treaty which guaranteed Portuguese territorial integrity and at the same time promised free trade in the colony. This treaty, however, was opposed by nearly all of the nations, and when it failed Bismarck called the Berlin Conference together in the hope that a settlement might be reached with reference to the whole Central African question. In opening the first session Bismarck said: "The fundamental idea of this program is to facilitate the access of all commercial nations to the interior of Africa." There was a general acceptance at this assembly of the Powers to the proposition that a free zone should be established, and the greater part of the discussion related to the delimitation and the neutralization of the territory affected. The principles established were: that trade should be free to all nations in the Basin of the Congo, including certain territory east and west to the Indian and Atlantic Oceans,[1] with

[1] The territory to the west was a comparatively narrow strip, whereas on the Indian Ocean the free trade zone reaches its greatest extent, north and south.

free access to ports and to the Congo and its affluents; that navigation fees, equal for all, be allowed to cover costs of improvements; that "import duties" be prohibited;[2] that no commercial monopoly or privilege should be granted; that foreigners should in all cases enjoy the same rights in the region as citizens of the sovereign power; and that the execution of these provisions should be in the hands of an international commission. This commission, however, was never appointed and administration was left in the hands of the states holding territory in the zone.

Passing over a number of treaties between two or three nations, the most important of which is the one between France and Great Britain in 1898 applying for 30 years the open door policy to some one million additional square miles of African territory, we come to the Algeciras Congress of 1906, in which again the leading European powers considered the question of commercial equality—this with reference to Morocco. A uniform import duty of 12½ per cent, applicable to the goods of all nations, was agreed upon. A state bank was established under international control. All concessions and contracts were to be let publicly without discrimination. In case a contract for a government work was to be let, the diplomatic representatives of the powers entering into the agreement were to be notified. In general, the conference agreed to the principle of the open door in all commercial and financial matters.

In the diplomacy of the Far East the principle of equality in commercial matters was recognized when Secretary of State, Hay, on September 5, 1899, requested and later received from the nations holding "spheres of influence" in China the pledge that they would maintain the open door as to customs duties, harbor dues, and railroad rates. In the preamble of the Anglo-Japanese Alliance, signed January 30, 1902, Japan and Great Britain reasserted their adherence to the open-door principle to the effect that they were specially interested "in securing equal opportunities" in China and Korea "for the commerce and industry of all nations."

The "open door" is the antithesis of the policy that colonies exist for the exclusive benefit of the mother country. It recognizes the interests both of outside nations and of the colony itself. It establishes the principle that no nation, because of politi-

[2] In 1890 the Brussels Anti-Slavery Conference permitted a 10 per cent import duty in the Congo zone.

cal control or military power, has a right to exclude other nations from participation in the economic development of the less advanced parts of the world.

The Open Door in Practice

Much of the difficulty with the open-door policy has resulted from a failure to recognize and to acknowledge its full implications. In many quarters it has received lip service but in practice has either been evaded by secret devices or modified by so many exceptions that it has become little more than an aspiration. The conclusion must not be jumped at that, because international conferences, diplomatic notes, and treaties have proclaimed the open door, the door has remained open. A discussion of the ingenious methods by which the door has been closed would extend far beyond the scope of this address. It would include the story of the railroads, and other concessions of China, and of the development of trade and finance in Asia and Africa. Under Leopold, for example, free trade in the Congo Free State was all but nullified by the prohibition of trading on the domain of the state and on the lands of companies holding concessions,—in other words, the greater part of the country. Passing with only brief mention this aspect of the open-door problem, I can not too strongly emphasize that it is the secret and concealed influence of governments working in or coöperating with trading companies and nominally private concerns which hold railroad, mining, and timber concessions that presents the most serious menace to equality of commercial and financial opportunity.

Dutch Colonial Policy

Since tariffs have played a large part in the discussion of the open-door policy, it may be profitable to examine the policies pursued by different countries. The Netherlands may be mentioned first since their colonial empire is one of the oldest and since, so far as the published tariffs show, there are no preferences. The Dutch possessions are in the East and the West Indies. Java is the most important colony. The open door prevails in the colonies and the low revenue tariff of the mother country gives no special advantage to colonial products.

British Preference

All the dependent colonies of Great Britain, including India, have import tariffs embodying the open-door principle. Great

Britain, however, has recently levied export taxes on palm kernels, raw cocoa, and jute when exported from West Africa and India, and these taxes are remitted if the exports go to any portion of the British Empire.

Reference should be made to the preferential tariffs of the self-governing British dominions, although their tariffs do not technically belong to a discussion of the open door, since they are entirely independent in their fiscal policy. Discussion of them is more relevant under most-favored-nation treatment.

Great Britain, it should be said in justice to her, has never urged or even encouraged the establishment of preferences in her favor. A minority in Great Britain has favored the extension of imperial preference to the products of the rest of the Empire when imported into Great Britain, and some resolutions have been adopted favoring preferences. But the British Government is not likely for political reasons to place a tariff on foods and raw materials, and it is preferences on these which would most benefit the dominions.

Australia grants preferences in her tariff to the United Kingdom and to South Africa. In New Zealand the general tariff is the preferential tariff and is applicable to goods from all parts of the British Empire. Countries outside the Empire pay a surtax. In the case of the South African Customs Union, the regular schedule applies to foreign goods and the preferential rates to goods from the United Kingdom and reciprocating British dominions. Canada has three schedules on imports. The lowest rates, giving a preference of about one-third of her customs duties, apply to the whole of the British Empire except Newfoundland, Australia, Gibraltar, Cyprus, Hongkong, and Malta. Canada in turn receives compensating preferences from South Africa, New Zealand, and certain of the British West Indies. The intermediate tariff may be granted, in whole or in part, in return for reciprocating concessions, and also to countries entitled by treaty to most-favored-nation treatment. It is enjoyed in part by French, Belgian, Dutch, and Italian goods. The third schedule is the general tariff and is paid by all other countries including the United States.

These preferences within the British Empire are justified, by their defenders, on the ground of political and sentimental ties. They are, it is asserted, purely of domestic concern. But the same argument might be used for discriminatory reciprocity treaties

between nations. Should the arrangement between the United States and Brazil be considered objectionable from an international standpoint, equally so are British preferences. Although technically Great Britain has a veto on legislation in the Dominions, they may in practice enact any laws, including tariff or other fiscal laws, which they desire whether Great Britain approves or not. No other political units exist in the world which are comparable with them. They are *sui generis*. But being nations for fiscal purposes, should they decline to accept the responsibility of nations in matters of commercial policy at the same time that independent nations are asked to do so? If discriminations are objectionable in one case, are they not objectionable in the other? Should the British Empire insist on preferential arrangements between its self-governing parts, there seems no tenable justification for asking other self-governing parts of the world to give up their discriminatory measures.

German Colonial Policy

Germany entered late into the race for colonies. She was inspired to enter by many motives, but chiefly by the desire for commercial advantage. Other industrial countries had tropical and sub-tropical colonies which supplied raw materials and which furnished markets and opportunities for the investment of capital. Preferential tariffs in colonies and the possibility of the extension of the policy of exclusion to other colonies and to "protectorates" impelled Germany to seek political control over parts of the world. Dernburg, the German colonial secretary, said: "A country's own colonies become an instrument of commercial policy, since a nation secures rights and privileges in foreign colonies only when one can offer corresponding rights and privileges in her own colonies." Germany's first colony was acquired in Africa in 1884; the last important one, Kiau-Chau in Shantung, was taken from China in 1897.[3] Her colonial empire included Togo, Kamerun, German Southwest Africa, German East Africa, German New Guinea, Kiau-Chau, and certain small islands in the South Pacific,—in all just over a million square miles.

The published tariff rates of German colonies show no preferences. German goods received no preferences in the colonies; colonial goods received no preferences in Germany. But the ques-

[3] The Caroline Islands were acquired by treaty Oct. 1, 1899, and the German claim to a share of Samoa was recognized by treaty, Nov. 14, 1899.

tions may be raised: Were there any concealed preferences? And if not, what motive led Germany to pursue an open-door policy?

Preferences may be concealed by arranging the free list in order to exempt from import duties articles predominantly of German origin; by placing relatively lower duties on goods which are important in the commerce between the colonies and the mother country; by administrative regulations which, although apparently applying to all equally, favor German goods. On such practices evidence is very difficult to obtain, but it seems safe to say that there is no evidence that Germany ever closed the door in her colonies.

The Berlin Act of 1885 prohibited discriminations in the Congo Basin, which was defined to include German East Africa and part of the Kamerun. There was also a selfish motive for refraining from adopting preference. Germany was not in a strong position in regard to colonial policy. Had she adopted preference, it might have led to retaliation by such colonial powers as Great Britain and France; and in that case Germany's loss would have been out of all proportion to the gain from preference, as her colonies were insignificant and undeveloped in comparison with the older and richer colonies of France and Great Britain.

Italian Colonial Policy

Italy, like Germany, did not begin to seek a colonial empire until the better parts of the earth's surface were preëmpted. The Italian colonies—Eritrea, Somaliland, and Libia—were acquired in the order named. The colony of Eritrea attained its present boundaries, approximately, by 1900. Somaliland includes the colony proper, and to the north several protectorates. It was acquired in 1889, with the exception of the four chief ports of the southern part, which were leased in 1893 from the Sultan of Zanzibar and purchased in 1905. Libia was annexed by decree of November 5, 1911, though the treaty of peace with Turkey was not signed for almost a year and guerilla warfare continued even later. The commercial importance of these colonies is insignificant. Exports are small and the total trade of all three does not exceed 20 million dollars per annum.

The tariffs of these Italian colonies are low. Preferences in favor of Italian products exist in both the import and export schedules, and colonial goods enjoy some preferences in the Italian market. For our purpose a few examples will suffice. Italian

goods when entering Eritrea pay only a statistical tax of 1 per cent as against 8 to 15 per cent paid by foreign goods. The imports of Italian cottons have greatly increased, whereas the imports of foreign cottons have declined. The same tendency is seen in cotton imports into Somaliland, where Italian goods also enjoy a preference. Certain articles, particularly hides, exported from Somaliland to Italy have a preference in the export taxes. There is a tendency to increase preferences, and they have begun to appear in the Libian tariff.

French Colonial Policy

France's colonial empire includes extensive areas and a diversity of peoples. In Africa, where by far the largest territory is controlled, it includes Tunis, Algeria, Morocco, large sections of west and equatorial Africa, and Madagascar; in Asia the chief possession is Indo-China; and in America and Oceania possessions are held, the most important of which is New Caledonia.

French colonies may be classified for tariff discussion into assimilated, open-door, and special régime colonies. Although there are some exceptions, those of the first group have the same tariff as the mother country, and with France they not only enjoy free trade, but are assimilated into a common customs union. These colonies are Algeria, Indo-China, Tunis (in part), Madagascar, Reunion, Martinique, Guadeloupe, New Caledonia, Guiana, and Gaboon. In the second group, the open-door colonies, there are very low, or no, tariff duties. Generally, their goods pay the minimum rates when imported into France, but there are a few special preferences. These colonies are Morocco, Somaliland, Dahomey, the Ivory Coast, French India, and Equatorial Africa outside of Gaboon; to which French tariff policy adds also the New Hebrides.[4] The third group, the special régime colonies, have special tariffs containing some preferences. They are West Africa (excluding Dahomey and the Ivory Coast), Oceania, and St. Pierre and Miquelon.

The assimilated colonies are France's most important colonies. As they are in customs union with France and levy, therefore, the high duties of the French tariff on foreign goods, the discrimination in favor of French and French colonial products is 100 per cent. In the special-régime colonies the discrimination is equally

[4] The New Hebrides are under the condominium of France and Great Britain and are not technically a French colony.

great but the rates are lower. There are, however, additional duties such as consumption duties and the octroi de mer which are paid by French as well as foreign goods.

In French markets the products of the assimilated colonies (except pepper and sugar) enjoy a preference of 100 per cent. On imports from certain open door and special régime colonies preferences are allowed on some products.

The Open Door in the Philippines

Article IV of the Treaty of Paris, which in 1898 brought to a close the Spanish American War, provides:

"The United States will, for the term of ten years from the date of the exchange of the ratifications of the present treaty, admit Spanish ships and merchandise to the ports of the Philippine Islands on the same terms as ships and merchandise of the United States."

Connected with this article occurs probably the first mention in American diplomatic correspondence of the words "the open door." The protocol shows that the Spanish commissioners asked:

"Is the offer made by the United States to Spain to establish for a certain number of years similar conditions in the ports of the archipelago for vessels and merchandise of both nations, an offer which is preceded by the assertion that the policy of the United States is to maintain an open door to the world's commerce, to be taken in the sense that the vessels and goods of other nations are to enjoy or can enjoy the same privilege which for a certain time is granted those of Spain, while the United States do not change such policy?"

The American commissioners replied:

"The declaration that the policy of the United States in the Philippines will be that of an open door to the world's commerce necessarily implies that the offer to place Spanish vessels and merchandise on the same footing as American is not intended to be exclusive. But the offer to give Spain that privilege for a term of years, is intended to secure it to her for a certain period by special treaty stipulation, whatever might be at any time the general policy of the United States."

No tariff discriminations were inserted in the tariff legislation on imports adopted by the United States military authorities for the Islands. Certain preferences were allowed, however, on raw materials exported from the Philippines in which certain industries of the United States were interested. Upon the production of evidence of consumption in the United States, the Philippine export taxes on hemp, copra, sugar, and tobacco were refunded.

The United States Tariff Act of 1909 established free trade between the Philippines and the United States with a few exceptions

(which were omitted in the tariff act of 1913); that is, no import duties were to be assessed on domestic product of either the United States or the Philippines when entering the ports of the other. Thus Congress definitely abandoned the open-door policy. For some years prior to 1909 there had been a few preferences to such Philippine products as sugar. The Philippine Tariff Act of August 5, 1909, enacted by the United States Congress, contains the rates of duty which are to be levied on imports in the Philippines from countries other than the United States. The tendency of this tariff act, it is said, was to exclude foreign competition with American products in the Philippines, and the act was, therefore, opposed bitterly by some classes in the Islands.

Something should be said as to the economic effect of preferential arrangements, and our arrangement with the Philippines may be used to illustrate tendencies which are present in all the preferences which we have considered.

In the case of those commodities in which the imports from the United States into the Philippines would not dominate, but would, nevertheless, be substantial, the provisions of the Philippine Tariff Act would be a subsidy to the American exporter at the cost of the Philippine consumer. Philippine prices would be determined by the product which had to pay the Philippine duty. On American commodities which, because of their superiority in quality or price, dominate the Philippine market, the result of the tariff would be negligible; the tariff rates on foreign products would be merely nominal and the articles would sell in the Philippines on the basis of free imports, provided, of course, there is free competition. American commodities which were dearer than foreign products, yet able, by virtue of the tariff preference, to displace them in the Philippine market, would command a higher price in the Philippines than would be the case if imports from all countries were free. In this case the Philippine consumer would lose, without there being any compensation in increased revenue to the treasury of the Islands.

Tariff of China and Siam

We can not discuss the tariffs of dependent colonies without thinking of the tariffs of China and Siam. These countries have had practically no voice in the making of their tariffs. Tariff rates were fixed for them in treaties concluded more than a half century ago, and it requires only a glance at their rates to see that they are made not in the interests of the people of China

and Siam, but in the interests of those nations which want to export goods. There are those who believe that simple justice requires that China and Siam be granted tariff autonomy. If this does not seem practicable at the present time, the treaties should at least be revised in such manner that the economic and revenue needs of these countries may have first consideration. An international commission now has the Chinese tariff under consideration.

Home Interest in Tariff Legislation

Tariffs of dependent colonies and of China and Siam should be made not in the interests of the leading commercial nations which have goods to export, but in the interests of the people who are directly concerned. These interests in such cases frequently coincide; tariffs chiefly for revenue are here as a rule desirable. But these interests do not always coincide. A higher tariff in China would unquestionably contribute to her financial and political independence. India also furnishes an interesting case in point. The Lancashire cotton manufacturers have always opposed a tariff on cotton goods imported into India. When an import duty was levied on cotton products in India, an excise tax equal to the import duty was levied on the production of cotton goods in India. So far did the government go in its effort to eliminate even the suggestion of protection from India's tariff. Indian opinion, however, was hostile to this situation. Japanese competition was becoming increasingly severe. After long agitation, in March, 1917, the duty on cotton goods was raised from 3½ per cent to 7½ per cent without a corresponding increase in the excise tax. There seems no good reason why the tariffs of dependent colonies should not be framed upon the same principles as the tariffs of independent nations. Both the revenue and industrial needs of the peoples directly affected should be given first consideration.

Preferences—an International Problem

Whereas the highness or lowness of a tariff should be determined solely with regard to the interests of the people directly affected, preferences in tariffs (and in other commercial and financial matters too) are international problems. They are necessarily subjects for international discussions and perhaps decision. The industrial value of preferences to the favored nation and the ma-

terial injury to the excluded nation have no doubt been exaggerated. Nevertheless, the nation discriminated against is aggrieved. Suspicion arises. Retaliation is planned and put into effect. Trade wars follow and bitterness and hostility are engendered between peoples. It can no longer be said that a special discriminatory treaty between two peoples is their concern alone. Nor can it be said that preferences between a nation and its colonies are purely domestic problems. To take such a position is simply a refusal to face squarely one of the most fruitful sources of international friction. The disposition of the subject depends fundamentally upon the spirit in which nations come together for the consideration of preferences. If the spirit is that of selfishly seeking to hold to every material advantage that political power for the moment makes possible, no substantial progress will be made and the world will settle back into the old fatal circle of discriminations, trade rivalries, hostility, and war. If, however, nations recognize that they are faced with the need for revolutionary action; if the spirit which guides is that of a willingness to give up something in the interests of world peace, we may hope for a genuine solution of the perplexing problem of discriminatory barriers.

No nation should be asked to act alone in the abandonment of preferential or discriminatory measures. Such measures should be abandoned by all the powers by general agreement. This action, as we have seen, has been taken for limited areas. Is it too much to hope that one of the results of the war will be its universal application? If there is one thing that the war should end forever, it is colonial monopoly and the exploitation of outlying parts of the world by nations which control them politically. Colonies should be regarded, and are regarded by the most advanced nations, as trusts which they are called upon to administer. Preferences enjoyed by the trustee are inconsistent with the trusteeship.

Concealed Discriminations and Exceptions

Nations can usually be brought to subscribe to the principle of the open door either with the agreed understanding that certain exceptions are to be allowed or with the design that, while proclaiming publicly acceptance to the open door, they will devise means of concealed discrimination.

Concealed discriminations have led some public men to despair of the general application of the open-door principle. They have

said, with considerable justification, that nations which carry out their international obligations in good faith are at a disadvantage in competition with nations which do not hesitate to evade the spirit while accepting the form of the open-door principle. Concealed discriminations may be made in tariff classifications by which products which are peculiarly the products of the mother country or colony are favored under an appearance of equality; in undervaluations of home products; in customs regulations; in port and navigation rules; and in the even more subtle way of financial and political control. A government may even disguise its discriminatory policy by operating through nominally private banks and corporations. Faced with these conditions some public men have proposed to abandon the equality-of-treatment principle and to attempt the use of retaliatory measures for the purpose of removing concealed discriminations by other nations. In clear cases where negotiation has failed it is justified, but as a general policy such a step is objectionable. Rather should the nations, recognizing the desirability of the open-door principle, make it effective by devising as a supplement to it machinery which will ferret out and bring into the open these objectionable and concealed discriminations.

When we turn to the consideration of possible exceptions to the open-door principle, our problem becomes more controversial. Cases undoubtedly exist where geographical or political ties, or the two together, justify, even from an international standpoint, preferential arrangements or a customs union. Among these may be mentioned the United States, in which the states are contiguous geographically and bound together by an indissoluble political union; the Zollverein established among the German States in 1834;[5] and the customs union of the states of Australia. A customs union or preferential tariffs would also be justified among the states of Central America. If eastern and southeastern Europe is in the future broken up into small nationalities in order to satisfy the many national aspirations of those peoples, their vital interests may require the adoption of a common commercial policy among them. Cuba and Hawaii are economically a part of the United States and bound to this country by peculiar political ties. To refuse in their case a close economic union with the United States would be unjust *to them*. Even Algeria may perhaps reasonably claim inclusion in a customs union with France.

[5] It was gradually extended to include more German states and was completed in 1871. Hamburg and Bremen were added in October, 1888.

Just where the limit to the establishment of customs unions and preferential arrangements shall be placed depends on what is desirable from the standpoint of international good-will. The interests of weak political units dependent on others and the fundamental political and geographic relationships should be carefully weighed. It is reasonable to suggest, however, that mere political ties between political units widely separated is not alone enough to justify preferences. From the standpoint of world harmony, then, no justification can be found for preferences, for example, between the United States and the Philippines, Great Britain and Australia, Italy and Eritrea, or France and Indo-China.

It is one thing, however, to admit that exceptions are necessary, and quite another to determine what the exceptions are to be. If each nation is left to determine independently what exceptions to the general rule should exist, the general treaty will put us little further ahead than we are today. Plausible grounds, geographic or political, can always be alleged for preference and the exceptions will destroy the rule. Here, as in the case of concealed discriminations, we have a problem for international investigation and possible decision.

Machinery of an International League

Both concealed discriminations and open exceptions to the general rule of the open door raise immediately the question of the machinery to be adopted by nations for their joint action. We can not here discuss the details of the League of Nations, but some phases of its possibilities should be suggested in relation to preferences and the open door. No international league will spring into existence full-fledged. A plan too ambitious for the present time will destroy itself. Nations will not immediately yield up that degree of sovereignty which the more pretentious plans for a League of Nations call for. Years of education and experimentation are ahead of the world before the tradition, the sanction, and the international will come into being which are necessary to make a comprehensive world state a success. The immediate problem is to determine the steps which now should be taken toward international government, for real progress depends on knowing how much the world will accept at the present stage of its development. The following proposals are, therefore, made as suggestive guides toward permanent peace:

1. That general principles, governing as many subjects as

possible, be enumerated in general treaties signed by all the nations. For example, instead of leaving discriminations and preferences to nations bargaining two by two, or to special conferences, the nations should adopt by general treaty the principle of the open door and unconditional most-favored-nation treatment.

2. That there be established with ample funds to support them, a series of advisory and administrative commissions, whose duty it will be to investigate and give publicity to matters of international concern and to administer any task laid on them by the final treaties.

3. That the peace treaty provide for the reassembling from time to time of the delegates of the nations, and that at these periodic meetings these representatives have power on their own initiative, or on the recommendation of any one of the international commissions, to revise or extend any provision of the final treaty and resubmit their revisions to the nations for ratification.

International Commissions

In the world out of which the great war sprang as inevitably as sparks fly upward, a nation aggrieved by shipping, trade, or financial discriminations had only the alternative before it of submitting or retaliating. If it submitted, it nursed its grievance into suspicion and hatred; if it retaliated, the world witnessed a commercial war which increased ill feeling. The need was great, and now, after the war, is even greater for international commissions which will investigate and offer a solution to these commercial rivalries before they result in conflict. The Allied Maritime Transport Council, which has rendered such genuine service during the war, suggests the field for an international shipping commission. The food and raw material Executives of the Allies may be regarded as the beginnings of the organization for handling world problems concerning food and raw materials. Anarchy, before the war, reigned almost supreme in international trade relations. Because there were no international standards of competition, the only restraints on unfair practices by great export syndicates were those exercised by nations, and they were ineffective. An international trade commission could be of great service in making competition between nations fair. Investments and concessions in politically backward countries should also be under an advisory commission, which would view the problem in the light of

international needs. An international tariff commission, as the discussions in this address indicate, is imperative. It would act as an arbiter in tariff disputes between nations, give publicity to concealed discriminations, investigate and report on the economic phases of any exceptions to the general rule of equality of treatment and opportunity, and at stated times submit, as should the other international commissions, its reports and findings to the reassembled delegates of the nations.

THE OPEN DOOR AND COLONIAL POLICY—DISCUSSION

J. T. Cremer.—I am thankful for having been asked to say a few words in reply to the interesting paper read by Mr. Culbertson, showing so clearly that the open-door policy in the colonies is one of the economic bases for permanent peace.

The learned speaker showed clearly that many of the colonies, which were originally "conceived to exist solely for the benefit of the mother country" are yet far from being now held *in trust* for the benefit of the inhabitants of those colonies; they are far from seeing their doors opened, in order to give entrance to nations—other than the mother country—to participate in the economic development of the less advanced parts of the world. In fact, nearly all the nations mentioned have either preferential custom-tariffs or they discriminate in other ways in favor of the mother country. It is remarkable that mother countries, most prone to give equal rights and freedom to their own citizens, countries which are looked upon as the bulwarks of religious and political freedom, do not feel that the far-away souls they have charge of claim not only that same freedom but also economic freedom.

The speaker first referred to the Dutch Colonial Policy, but least was said about it. This silence however is eloquent: "So far as the published tariffs show," he said, "there are no preferences. . . . The open door prevails in the colonies and the low revenue tariff of the mother country gives no special advantage to colonial products."

This is quite true and unpublished tariffs do not exist. The home and the colonial tariffs, I understand, will be published in the *Free Trade Journal.*

I now beg to be permitted to explain briefly: (1) why the Netherlands adopted this policy; (2) what the results are; (3) what conclusion is to be drawn—a conclusion, which, I fear, differs with respect to the colonies inhabited by colored natives slightly from that of Mr. Culbertson.

1. I frankly admit that the colonial policy of Holland, executed chiefly by the Chartered East Indian Company, originally had more in view the benefit of the mother country than that of the natives, and I should not like to take the responsibility of all that happened in the greater part of its three centuries of colonial rule. However, in the past century better ideas dawned.

It is now about fifty years ago that the preferential import and export duties were abolished, much to the disgust at that time of some home manufacturers and merchants, who feared that they would be

driven out of the Indian market by foreign competition. But the Home Government stood firm and considered that the natives had a right to buy and sell in the best markets. They had to pay their taxes in money and in labor (the latter method has since been abolished) and had a right to claim that the proceeds should go into the Treasury, not indirectly into the pockets of home consumers or producers.

Another reason for opening our door widely was that as a small nation we considered it a very grave and great task to develop, all by ourselves, a territory sixty times larger than our own home country, six times the size of the Philippines or of the United Kingdom; and with a population of some 45 millions (seven times our own). Coöperation of foreign capital, industry, energy, and science was required, admitted, and obtained. We count amongst our oldest Indian commercial firms, banks, planters, and scientists, a great number of foreign Europeans and Asiatics. Few Americans, I must say, but they had a great task to fulfill within their own boundaries. However, since the war closed the direct trade-roads with the mother country, a brisk trade by the Pacific Ocean route has been carried on with the United States, and it is still going on.

Besides, during the Hudson-Fulton festivals, on which occasion I had the advantage of becoming acquainted, in New York, with some of your important rubber manufacturers, they took my advice and opened out rubber plantations in Sumatra, which are now the largest in the world. Others followed that example.

The latter fact shows that not only was our door open for commerce, but also for certain investments and concessions of another nature. In fact, for the purpose of cultivating waste soil, for working manufactories, etc., the foreigner can coöperate with Holland or native industrials on easy conditions. Railway tariffs are the same for everyone; the railways are mostly worked by the government. Foreign steamship lines frequently visit the Colony.

2. The *results* of the open-door policy are very satisfactory. Far from having stunted home enterprise the foreign competition has emulated and strengthened it, and our products compete with those of other nations, not only on the colonial but also on the world's markets. Although Holland hardly produces any charcoal and produces no ores of any kind, although it is therefore severely handicapped as an industrial country, still its industries have greatly developed in the last half century. Its shipping enterprise is known all over the world; in the transit through the Suez Canal it took the third place before the war.

The East Indian colonies at the same time rapidly developed. The total trade returns in 1890 amounting to florins 300 millions, in 1905, to florins 480 millions, grew in 1913 to one billion florins, which at the rate of $2\frac{1}{2}$ florins to the dollar, is equivalent to $400,000,000. They more than trebled in 23 years. The imports were about 40 per cent, the exports 60 per cent of that total. Nearly one third of the trade was direct between mother country and colony. The chief imports were machinery, iron and steel, automobiles, etc. The exports were tin, sugar, tobacco, rubber, tea, coffee, cinchona, vegetable-oil, etc.

It would carry me too far to go into further details. Suffice it to say that since Mr. Money, a British author, who visited Java after a life spent in British India, some sixty years ago wrote his book *Java, or How to Manage a Colony,* and since your countryman Mr. Clive Day wrote his excellent book *The Dutch on Java,* much has been changed for the better. I am sure that the many competent Americans, who since the Philippines came into your possession have visited the neighbouring colony, your governors (I mention Mr. Harrison), your military commanders, officials, and merchants there, have been favorably impressed by the system of government in the Netherlands Indies and its results.

Very, very much remains to be done, chiefly for the opening up of the great islands surrounding Java, namely, Sumatra, Borneo, Celebes, New Guinea, etc., but one object we have attained already, namely, that the natives are convinced that no other foreign rule would offer them greater advantages than that of the Netherlands; and that the foreign nations, now freely admitted to the colony with their commerce and industry, feel that a transfer of the Netherland rule into other hands would seriously endanger those relations.

This safeguard of good feeling is to us of more value for maintaining our position in the Far East than a large fleet and a strong army, the costs of which would weigh down the colony.

3. This leads me to the *conclusion* that any colonial nation, which understands the importance of the open door in international colonial relations, can act for itself, can act at once, without the making of "preferences on international problem." There are such immense problems to be solved between nations after the great war, problems of right and of might, problems of international association, all of which cannot be solved except by mutual agreement, that I would not recommend to add to these labors such problems as every nation can settle for itself. Granted, even, that it would have some advantages to do so, we cannot but admit that years would pass before a conclusion, if any, would be arrived at.

Versailles and The Hague's Peace Palace have enough work before them. The nations that now have no preferential duties in their colonies, that abolished them by their own free will, did not make an international problem of their decision.

What Dernburg, the then German Colonial Secretary, said, as we heard just now, is *not* true. A country's own colonies are *not* "instruments of commercial policy" of the mother country. That is a policy of centuries gone by. It is *not* true that "a nation secures rights and privileges in foreign colonies only when she can offer corresponding rights and privileges in her own colonies." This barter of the rights of natives, who have no say in the matter, is unsound, is objectionable, is untrue. In the colonies I mentioned just now the rights are given without a reward and they fare well all the same.

And therefore I would advise those nations which feel that preferential duties and discrimination are against the interests of their colonists and imperil peace, not to wait for others to join them, not to waste precious time, but to act.

Taking, for instance, the Philippines, we have just now heard that in 1913 the door was closed there for free trade, causing a bitter opposition from some classes there. And no wonder, as it was said that the new tariff act is a subsidy to the American exporter at the expense of the Philippine importer.

Your Economic Association, I take it, will understand that the industry of the United States, its commerce, its agriculture, and shipping trade, which in the past war-years have all shown their tremendous strength, do not require the weak support of a few millions of subjects in the Philippines and at their expense. The United States consumer might allow these brown brothers from oversea to sell their colonial produce at the best market; and if you understand the advisability of this policy, I venture to ask: why should a nation wanting to act in this matter not act at once and for itself? Should the United States deem it advisable to do so, she might join in this open-door policy the neighboring colonies situated between the Indian and the Pacific Oceans, and between the Asiatic and the Australian Continents, all populated by the Malay-Polynesian race and comprising, besides the Philippines, the Netherland East Indian Archipelago, and the British Straits Settlement, where the door is open to everyone. They would then be an object lesson to other nations.

I know of a nation, which, when it was itself a colony, objected to paying import taxes for the benefit of the mother country, and some 145 years ago showed its displeasure at a certain "tea-party." The

consequences were so great that it is now one of the mightiest nations of the world.

Let us prevent similar "tea-parties" elsewhere; let those who now feel strong and hearty throw away their differential bandages, their protective crutches, and their discriminating easy-chairs; and above all let us not talk about it but say—*DO IT NOW.*

Robert L. Hale.—Mr. Culbertson's paper is a very encouraging sign of the times. The adoption of his propositions by the Peace Conference would remove many of the causes of international friction—as many, perhaps, as it is now practicable to remove. But it would not remove them all. And it is our function as academic men to look beyond the Peace Conference and to seek out and to inform the public of the causes of friction still waiting for removal.

Mr. Culbertson's plan, and President Wilson's third point as recently interpreted, would forbid some of the forms of discrimination which are practiced between nations. Under this plan, one government could no longer discriminate in its customs tariff between the interests of producers in different foreign nations. But as long as a protective tariff of any sort is permitted, the government which imposes it must of necessity discriminate in favor of the domestic and against the foreign producers of the protected article. Such discrimination is the very essence of protection. Yet there are circumstances under which discrimination in favor of production in a given locality may be justified. But that sort of discrimination, if practiced by a body representing one locality, may well cause friction with the government which represents the locality whose production is discriminated against. To avoid this friction, whatever governmental discrimination is practiced between production in different localities should be practiced by a body representing all of the interests concerned. Such a body would be an international tariff commission, of the kind which Mr. Culbertson suggests, but with additional powers.

But a customs tariff is not the only weapon with which a government can at present discriminate between the interests of groups some of whom may not be represented in that government. Whenever a government controls credit, establishes priority rules, raises or spends revenue or regulates transportation rates, it has the power to discriminate among interests in different localities. In fact, it has no power to avoid discriminating. Any regulation of rates, for instance, necessarily involves an apportionment among the different classes of traffic of those costs of the enterprise which cannot be definitely im-

puted to any single class. Where the traffic will bear it, there is room for discrimination in the apportionment of these joint costs. There are indeed mathematical formulas the application of which calls for no discretion; but the very choosing of one of these formulas of apportionment is a discrimination against those classes of traffic which would gain more from the application of a different formula. The classes among whom this discrimination is made may represent interests in different nations. If the body which practices the discrimination represents the interests of one nation alone, we have again a cause for friction between governments.

We hear much of the desire of the French government to bring the iron district of the Saar Valley within the French boundaries. Were the prices of the Saar ore to be fixed by an international commission, as well as the rules of priority in the purchase of the ore, the transportation rates and the international equivalents of export and import duties on it, then the action of that international commission and not the location of the boundary would be the factor decisive of the respective advantages to be obtained by the French and German iron industries. Were the labor conditions in and the taxes on the mines likewise to be fixed by international bodies, and the expenditure of the proceeds of those taxes, then the question of the location of the boundary would lose its entire economic significance. But not until all the international conflicts of economic interest are removed from the jurisdiction of purely national governmental bodies will the location of international boundaries cease to be of economic moment. Not until then can their location be determined with reference solely to cultural and traditional considerations—to the rights of "self-determination" of the inhabitants.

THE ECONOMIC FACTORS IN THE MAINTENANCE OF PEACE—DISCUSSION[1]

C. van Vollenhoven.—Though there is an old Latin proverb saying that a twice repeated story pleases, yet I deem it a safer course for tonight's meeting, not to *repeat* in my tune the suggestive ideas expressed by Professor Sprague and which so highly honor their author, but rather to *support* them by proposing a slight addition. Mr. Sprague's introduction, in my humble judgment, leaves an ambiguity. It might seem as if, to the political economy of the present day, only a new final chapter ought to be added; a final chapter advising to make no use whatever of national economic forces and national economic opportunities, if such a use proves contrary to the benefit of the world at large, and therefore apt "to breed occasions for war." But, I think this is not the thing we want. Instead of a new final chapter, economic theory and practice need a new introductory chapter and a new title page. In the days of Adam Smith and Alexander Hamilton, international peace and international organization were words without any reality; and so the economy of their lifetime could only be an inquiry into the nature and causes of the wealth of separate nations,—of nations considering but themselves and judging after their national wants and wishes. For such a practice and for these studies, "political" or "national economy" indeed was a true and suitable term. But an economy as advocated last night by Professer Irving Fisher and by Professor Sprague in his paper, starts from quite another point; it does not inquire into the causes of wealth of a particular nation in its particular case, but into the causes of wealth of *all* the nations as a whole, of nations in their undeniable bonds of interdependence. The same reason which will compel mankind, after this war, to rewrite international law, no longer from the point of view of the separate nations with their clashing rights and interests, but from that of their common rights and interests,—that same reason will urge upon them a new "international economy." Let it then be styled so, from its very birth onward, and let the old inadequate name of a "political," a "national economy" be dismissed into the desert together with the thing itself.

Now it is a pleasure to me to draw your attention to the fact that, as many as five years ago, an organization was planned to promote Professor Sprague's ideas. In January, 1914, half a year before

[1] The paper on this subject, by Professor O. M. W. Sprague, of Harvard University was not read at the meeting.

the war, a special committee from the Institute of International Law discussed in the Peace Palace at The Hague an Academy of International Law, as suggested at the Second Hague Peace Conference of 1907; and this new academy, founded at The Hague on January 28, 1914, would, but for the war, have opened its doors in the autumn of that year. Now, though this academy is styled in its regulations an academy for international *law*, its second article reads, that the academy will be destined for studies on international law and on cognate, related, sciences; and at the preparatory meetings it was said, more than once, that economy, viewed from an international point of view, and therefore savouring not of war but of peace, would enter within this scope. Thus an international organization, established by competent and impartial men from various countries, and governed by an international board, stands upright and quite ready to serve Professor Sprague's lofty ideals; and I cordially hope our learned lecturer, who wrote his paper to seek some adherence to his views, in finding his exertions already crowned by anticipation, will feel somewhat like Saul in the Old Testament, who went out to seek his lost asses and found a kingdom.

MINUTES OF BUSINESS MEETINGS AT RICHMOND

December 27 and 28, 1918

Pursuant to the announcement in the program, the Thirtieth Annual Meeting of the Association opened with a business meeting in Room A. of the Jefferson Hotel, at Richmond, Virginia, on December 27, at 9 A. M., with President Fisher in the chair.

The annual reports of the Secretary and of the Treasurer, which had been prepared by Professor Young, were in his absence read by Professor English of Cornell. Each was, in turn, by vote, approved.

The Auditors' report was read by Professor English, chairman of the Auditing Committee, and by vote approved.

The report of the Managing Editor of the American Economic Review was read by Professor Dewey, and was, by vote, approved.

The President announced the appointment of the following Committee on Nominations: Messrs. Carver, Barnett, Kemmerer, Haney, and Gephart.

The President reported the receipt by the Association of a gift from Mr. Eph. A. Karelsen of $1500 for a prize or prizes for papers on the subject, "What can a man afford?"

The work of the special committees on the economic problems of the war which had been organized early in the year was then summarized by the President, and it was voted that these committees all be discharged, and that the new administration be authorized to continue or extend or reconstitute such of them as he desires.

For the Committee on the Purchasing Power of Money, of which Professor Fisher was chairman, he reported that three bulletins had been published, that on one the committee was not unanimous, one more was ready for publication, and the remaining three were rendered unnecessary by the coming of peace. It was voted that the committee be authorized to put out the publicity already prepared on Stabilizing the Dollar.

The committees on Marketing,[1] on Price Fixing,[2] and on Foreign Trade[3] announced their contributions to the programs of the coming sessions on these topics. Especial mention was made of the War Finance Committee, the comprehensive report of which was to be the basis of the session on Taxation.[4] A fund of $25,000 had been raised by the committee for its work.

[1] See Professor Hibbard's paper on page 47 of these Proceedings.

[2] See resolutions of the Committee on Price Fixing, on page 351-2 below.

[3] See report presented by the chairman on page 366 of these Proceedings.

[4] This report, together with the discussion of it given at the session on Taxation, appears in a separate publication, *American Economic Review*, Supplement, No. 2, March, 1919.

The committees on Labor, Arrears in Bibliographical Publications, and Collegiate Instruction in Social Sciences reported progress. The committees on Transportation and on Coördination in Taxation had no reports. The former asked to be discharged, the latter to be continued.

Professor Bogart reported that there had been collected some 1500 questionnaires sent out by the Committee on Coöperation in Economic Research; and it was voted that a committee be appointed to promote the utilization of the material in these questionnaires for economic or statistical research.

Upon a motion by Professor Dewey it was voted that the new President, the Secretary, and Professor Carver be appointed a committee to consider the reconstitution of the Executive Committee, as suggested by the Secretary in his annual report, and to present at the next annual meeting a plan for such reconstitution.

A second business meeting of the Association was held in Room A. of the Jefferson Hotel on Saturday, December 28, at 9.30 A. M., with President Fisher presiding.

The report of a meeting of the Executive Committee held in the auditorium of the Jefferson Hotel on Friday, December 27, at 12.45 P. M., was presented to the Association by T. N. Carver as follows:

It was voted by the Executive Committee to extend a vote of thanks to Mr. Karelsen for his gift of $1500 for prizes, and to authorize the President to see that the offer is made effective and productive of results; that is, that the conditions are stated and are presented to the economics students of the country and members of the Association, and any others who may wish to compete. The conditions decided upon were:

1. The contest is open to all.
2. A first prize of $1000 and second prize of $500 will be given.
3. Papers must be in the hands of the Secretary by October 1, 1919.
4. The papers shall be judged by a committee of three appointed by the President of the American Economic Association, including one economist, one practical social worker, and one student of ethics.

It was voted by the Executive Committee to recommend that the Association pass the following resolution:

WHEREAS, The 1920 national census should be our most important single source for statistics vitally affecting our social and economic problems;

WHEREAS, The usefulness of this census will be in direct proportion to its accuracy;

WHEREAS, It is obvious that the enumerators and supervisors should be selected because of technical fitness;

WHEREAS, The pending Census Bill, H. R. 11984, takes the appointment of the supervisors, who name the enumerators, out of the control of the Civil Service Commission;

WHEREAS, A special committee of this Association is coöperating under the Director of the Census in the preparation of certain technical phases of the work;

We, members of the American Economic Association, respectfully but most earnestly protest against taking the appointment of supervisors out of the control of the Civil Service Commission and urge that they be appointed through the agency of the Civil Service Commission.

The following resolutions, passed by the Committee on Price Fixing, were reported to the Executive Committee, for their acceptance and inclusion in the records:

Resolved, That, in the opinion of the Committee on Price Fixing:

1. Any conclusions which may be reached in regard to price fixing in war time should not be interpreted as necessarily applying to peace conditions.

2. In any case where price fixing is justified the price should be high enough to call forth, in so far as the price can affect the production, a prompt and adequate supply for war purposes, but not higher than necessary to accomplish that end.

It is not necessary that it should cover the cost of production of those producers who are especially inefficient, or who are producing under especially unfavorable conditions, unless a sufficient supply cannot be obtained from other producers at the price fixed.

3. In case large quantities of any commodity are required by our own and the allied governments, the buying should be unified even though such unified buying should result in something like price fixing by the single buying agency. In this case the principle involved in resolution No. 2 should be adhered to.

4. In fixing prices for government purchases a careful study should be made to ascertain if purchases which are ostensibly private purchases are not really for government purposes. When a given product is being bought by contractors engaged on work for the government, there is danger that the government's interest will be injured as a result of higher prices being paid by the contractor.

5. The prices should be agreed upon after conference with all parties who have a legitimate interest, including the producers or their representatives, as well as the dealers or distributors and their representatives, and the prices should, as accurately as possible, conform to the principle set forth in resolution No. 2.

6. Prices under competitive conditions perform important functions. Rising prices for a product tend to increase production and to check consumption. Labor and capital in the long run flow into those industries where prices are rising faster than costs and away from industries where prices are falling faster than costs. This is the main way in which industry is guided and controlled under a system of free enterprise.

When competition exists to the full extent, that is to say, when it is possible for labor and capital to flow quickly into industries whose prices are rising, price fixing is not as a rule called for. The occasion for price fixing arises—

a) When there is a sudden increase in the demand, usually on the part of the government, so great that for the time being producers cannot meet it, even though they may be able and willing to start their production at once;

b) When the stock is so limited that, even though the demand may not be sudden, it cannot be met for some months to come, as for example, when there is a shortage in the supply of some staple crop, like wheat or corn, between harvests.

In both of these cases, the demand for price fixing comes from the belief that high prices will benefit not those who are producing commodities, but those who either by design or accident have them in their possession, and therefore make a purely speculative middleman's profit.

If prices are fixed by the government, some other agencies must usually be provided for controlling consumption and production, that is, for doing what

changes of market prices would do automatically. One method would be to draft labor and capital, and to ration out their products to consumers. Short of this, various indirect methods may be used. Moral and social pressures may be applied to consumers to restrict consumption of scant supplies. Taxation may be used to repress non-essential industries. The government may use its control over coal, transportation, and basic raw materials to encourage needed industries, and to restrict those less needed. Banks, under the leadership of the Federal Reserve Bank and the Finance Corporation, may restrict credits to non-essential industries, and extend credits freely to those most needed.

7. In fixing prices of a given commodity, a careful examination should be made of the relation of the market for the given commodity to the market for its substitutes, and of the possibility that it may be necessary to fix the price of substitutes in order to maintain the most advantageous relation between the consumption of the given commodity and the consumption of its substitutes.

8. In case the production or the supply of any commodity in the control of a monopoly, or in case its production, distribution, or sale is so concentrated as to give a substantial control over prices, the government should fix prices, having due regard to the cost of production, the maintenance of an adequate supply, and the prevention of unnecessary waste.

Price fixing is likely to be much more difficult in the case of a scattered than in that of a concentrated industry.

9. In all cases where prices are fixed, allowance should be made for quality.

10. Storing goods to preserve them from consumption in times of relative abundance in order that they may be available for consumption in times of relative scarcity is to be commended, provided, of course, that it does not lead to the cornering of the market.

It was voted by the Association to adopt the following recommendations of the Committee on Price Fixing:

1. That the Association in coöperation with the National Board for Historical Service, the American Statistical Association, and other associations that may be interested, urge upon Congress the advisability of collecting, storing, and preserving in one fireproof building all the records of the Food Administration, including the Grain and Sugar corporations, of the Fuel Administration, of the War Industries Board, of the War Trade Board, of the U. S. Shipping Board, and other boards or organizations which have had anything to do with price fixing; and that appropriations be made for gathering additional material from outside sources and for the classification and indexing of all material bearing upon the subject of price fixing.

2. That the Association raise a special fund to finance an intensive study of the material thus collected.

3. That the Association urge upon teachers of Economics throughout the country the desirability of directing graduate students in the use of this material and the making of intensive investigations of special phases of the problems of price fixing.

Professor T. N. Carver for the Committee on Nominations reported the following nominations for election to offices for the year 1919:

President, Henry B. Gardner; Vice-Presidents, George E. Roberts, Susan M. Kingsbury, Henry R. Hatfield; Secretary-Treasurer, Allyn

A. Young; new members of the Executive Committee, Henry C. Taylor and Maurice H. Robinson, and for member to fill the vacancy caused by the election of Henry B. Gardner to the presidency, F. S. Deibler; members of the Editorial Board, Alexander E. Cance and Willard E. Hotchkiss.

It was unanimously voted that the officers nominated be elected.

The place of the next annual meeting was then discussed informally, and a preference was expressed of those present to hold it in Lexington, Kentucky, though no decisive vote was taken.

REPORT OF THE SECRETARY FOR THE YEAR ENDING DECEMBER 18, 1918

It is the Secretary's duty, first of all, to give to the Association an account of the activities of the Executive Committee during the year. That Committee has had to meet more frequently than in past years and it has had to deal with a greater number and variety of problems. But the difficulty, already apparent in recent years, of securing an adequate attendance at the meetings of the Committee, has reached a point where it creates a problem that will have to be faced by the Association in the near future. Most of the recent meetings of the Committee have lacked a quorum and its more important decisions have had to be made or ratified through the extra-legal and generally unsatisfactory process of voting by mail.

The Committee is constituted very largely of the past and present officers of the Association; the president, the ex-presidents, the chairman of the editorial board, and the secretary being members ex-officio. Only three members are directly elected by the Association. Under the present practice of an annual rotation in the presidency of the Association the number of ex-officio members is rapidly growing. The membership of the Committee is now so large that none of its members, particularly among the ex-presidents, is likely to feel any large measure of direct and personal responsibility for its work. This at any rate is the apparent explanation of the small attendance at its meetings.

In view of the importance of the work of the Committee, entrusted as it is with a very large measure of control over the policies of the Association, the Secretary ventures to suggest the desirability of reconstituting it upon a different basis. The number of elected members should be increased, and it may be wise to decrease the number of ex-officio members, possibly by limiting the number of years for which an ex-president should remain ex-officio a member of the Committee. The chairman of the editorial board, holding an office that is a survival from an earlier stage in the publication activities of the Association, might well be replaced on the Committee by the Managing Editor of the American Economic Review.

The first meeting of the committee for the year was held at the Cosmos Club, Washington, on January 11. Those present were President Fisher, and Messrs. Gray, Marshall, and Young. The President was authorized to appoint special committees to investigate and report upon various economic problems of the war, including specifically trans-

portation, labor, and price control. The sum of $1000 was appropriated for the expenses of these and other special committees of the Association. As chairman of the committee on the purchasing power of money, created at the previous annual meeting, President Fisher was authorized to appoint sub-committees of that committee, including a sub-committee on index numbers. This committee was also authorized to issue preliminary reports or bulletins. (By mail vote, on July 3, the same privilege was extended to other committees, on the condition that the approval of the President of the Association be obtained.)

In accordance with votes of the Association at its previous annual meeting the following committees were created:

1. Committee on arrears in bibliographical publications: J. A. Field, chairman (succeeded by Clive Day), H. J. Harris, and A. A. Young.

2. Committee on college training for citizenship (at the request of Board of Education of the Northern Baptist Convention): L. C. Marshall, chairman; M. S. Wildman, W. H. Hamilton, and E. E. Day.

3. Two members of a joint committee on the revision of courses offered in colleges of arts and sciences (at the request of the United States Commissioner of Education): L. C. Marshall and M. S. Wildman.

A second meeting of the Committee was held at the Yale Club, New York, on May 18. Those attending were President Fisher, and Messrs. Fairchild, Seligman, and Young.

Professor Seligman as chairman of the special committee on War Finance, reported that it was likely that certain New York business men would guarantee the major part of the funds necessary to enable the committee to undertake a thorough study of the war revenue systems of the United States and other countries. After informal discussion it appeared that it was the unanimous opinion of the members present that such financial assistance should be welcomed, and that whatever funds might be obtained in this way should be incorporated in a general fund for the expenses of the various special committees of the Association upon the economic problems of the war. It was voted to invite contributions for this purpose from the members of the Association, with the understanding that each contributor should have the privilege, if he should so desire, of designating the particular committee for whose expenses his contribution should be used. A circular letter to our members was sent by the Secretary, inviting subscriptions for the purpose stated. The sum of $1118.50 was generously contributed in this way.

Another meeting of the Executive Committee was held at the Yale Club, New York, on July 29. There were present President Fisher,

and Messrs. Fairchild, Gray, and Young. The subject of discussion was the advisability of changing the place of the annual meeting for 1918, from Cleveland, Ohio, to some place nearer Washington. Against the proposed change it was suggested that it is, in general, undesirable to change the place of meeting once decided upon; that the American Historical Association, the American Political Science Association, and the American Sociological Society had already decided to meet in Cleveland with the American Economic Association; that a local committee on arrangements had been appointed and was presumably at work in Cleveland; and, finally, that some of our western members would object to a change that would make their attendance at the meeting more difficult.

On the other hand, it was argued that the Cleveland invitation which we accepted was from the Cleveland Chamber of Commerce and not from Western Reserve University, so that no embarrassment would attend the withdrawal of our acceptance; that a very large number of our members were in Washington and that a yet larger number would probably be at work there in December; that among the members in Washington are a large proportion of those who have been expected to contribute to the program; that it might be possible to secure for our program one or more distinguished men now in the government service; that the American Statistical Association, which had met with us in past years, finds that it will be impossible for it to meet in Cleveland; that a number of our western members might welcome the opportunity of visiting Washington at this time; and, finally, that even with a larger attendance the total burden put upon the transportation facilities of the railroads would likely be less for an eastern meeting than for one in Cleveland.

Those present at the meeting of the Executive Committee voted to recommend to the other members of the committee that the place of meeting should be changed from Cleveland to some point nearer Washington. This recommendation was adopted by a vote taken by mail, and Richmond was selected as the place of meeting.

During the year a number of special committees have been constituted by authorization of the Association or of the Executive Committee. Those now at work are as follows:

1. Committee on the Purchasing Power of Money in Relation to the War, Irving Fisher, chairman.
2. Committee on Price Fixing, T. N. Carver, chairman.
3. Committee on War Finance, E. R. A. Seligman, chairman.
4. Committee on Labor, J. R. Commons, chairman.

5. Committee on Marketing, L. D. H. Weld, chairman.
6. Committee on Transportation, W. Z. Ripley, chairman.
7. Committee on Foreign Trade, E. M. Friedman, chairman.
8. Committee on Federal Statistics, W. F. Willcox, chairman.
9. Committee on Bibliographical Arrears, Clive Day, chairman.
10. Committee on Coöperation in Economic Research, A. A. Young, chairman; W. H. Hamilton, secretary.

Despite the difficult conditions obtaining during the year we have been able to hold our membership at a fairly constant level, and to make a small gain. The changes during the year have been as follows:

Members and subscribers in December, 1917				2600
Annual Members in December, 1917			2076	
Members resigned in 1918		131		
Members removed for lack of address		30		
Members dropped for non-payment of dues		62		
Annual members died		22		
Annual members changed to life members		1		
			246	
			1830	
New members added in 1918		297		
Subscribers changed to annual members		3		
			300	
Total annual members in 1918			2130	
Life members in December, 1917		85		
Annual member changed to life member in 1918		1		
New life member in 1918		1		
Total life members in December, 1918			87	
Honorary members		6		
Honorary member died in 1918		1		
			5	
Total members in December, 1918			2222	
Subscribers in December, 1917		433		
Subscriptions discontinued in 1918	46			
Subscribers changed to annual members	3			
		49		
		384		
New subscriptions in 1918		72		
Total subscriptions in December, 1918			456	
Total members and subscribers in December, 1918				2678
Net gain in annual members		54		
Net gain in life members		2		
Net gain in subscribers		23		
		79		
Loss of honorary member		1		
Total net gain				78

On the financial side, notwithstanding increased costs of postage and supplies, and increased expenditures incurred by the Secretary's office on account of the work of special committees and in sending various announcements to our members, we have a surplus of $504.76 for the year to report; and it remains true that the Association's finances are in a generally satisfactory condition.

The work of the Secretary's office has been carried on during the year under conditions of some difficulty, created by the Secretary's absence from Ithaca. For this reason the Secretary feels that he must express his personal obligation for assistance generously rendered by President Fisher as well as for the always efficient services of the Secretary's assistant, Miss A. E. Gardner.

Finally there remains the duty, always approached reluctantly, of recording the names of those whose membership in the Association has been, within the year, terminated by death.

Beaman, George H.
Chandler, F. T.
Day, Edward A.
Ferguson, Henry
Fillebrown, C. B.
Goemann, Walter P.
Goodman, David
Hazard, Frederick R.
Kehew, Mary M.
Leverett, George V.
Martindale, J. B.
Miller, D.
Parker, Carleton H.
Pollak, Francis D.
Rich, Wesley E.
Riley, Elmer A.
Rives, George L.
Schaffner, Joseph
Selling, Bernard B.
Straight, Willard
Swift, William H.
White, Andrew D.

Wagner, Adolph (*Honorary Member*)

Respectfully submitted.

Allyn A. Young, *Secretary.*

REPORT OF THE TREASURER FOR THE YEAR ENDING DECEMBER 18, 1918

The transactions of the Treasurer's office during the year are summarized in the following exhibit of receipts and expenditures. A balance sheet and income statement are presented by the Auditing Committee, in its report.

RECEIPTS AND EXPENDITURES
1918

Cash on hand December 18, 1918			$6,527.72	
Receipts				
Membership Dues		$10,253.08		
Life Memberships		200.00		
Reprints of 1917		7.34		
Subscriptions		2,014.45		
Sales of Publications		472.68		
Interest		397.24		
Contributions for Expenses of Committees		1,118.50		
Profit and Loss		.04		
			14,463.33	
				$20,991.05
Expenditures				
Investment in Third Liberty Loan		$1,000.00		
Accounts of 1917 paid in 1918		1,157.32		
Expenses of Committees		198.32		
Paper Stock		1,794.28		
Publications—				
Review Printing	$2,787.20			
Review Editorial	2,315.25			
Review Expenses and Supplies	1,515.03			
	$6,617.48			
Proceedings	1,160.81			
Sundry Publication Expense	99.44			
		7,877.73		
Secretary's Office—				
Office Salaries	$1,835.32			
Traveling Expenses of Secretary	28.17			
Stationery and Office Printing	357.09			
Office Supplies	41.67			
Office Postage	679.04			
Telegraph and Telephone	73.41			
Express and Carting	4.36			
Miscellaneous Expenses	8.44			
Annual Meeting	218.00			
		3,245.50		
Insurance		70.96		
Storage of Publications		162.00		
			$15,506.11	
Cash on hand, December 18, 1918				
Central Trust Company		$3,698.57		
Ithaca Trust Company		680.05		
Tompkins County National Bank		1,106.32		
			5,484.94	
				$20,991.05

Respectfully submitted.

ALLYN A. YOUNG, *Treasurer.*

REPORT OF THE AUDITING COMMITTEE

Ithaca, N. Y., December 20, 1918.

To the American Economic Association:

An audit in detail of the accounts of the Secretary-Treasurer of the Association, for the fiscal year ended December 18, 1918, has been made by assistants under the direction of your committee. The accompanying statement of income and outgo, balance sheet, and exhibit of charges and credits to surplus, are in our opinion correct, and we certify that the ledger accounts are in full agreement with the balance sheet here presented.

Very respectfully,

DONALD ENGLISH,
ROBERT A. CAMPBELL,
ABBOTT PAYSON USHER,
Auditing Committee.

BALANCE SHEET

Assets

Cash in Bank		$1,106.32
Cash in Savings Accounts:		
Ithaca Trust Co.	$680.05	
Central Trust Co., Cambridge, Mass.	3,698.57	
		4,378.62
Investments:		
United Fruit Co. 4½'s of 1923	$2,000.00	
2d Liberty Loan	1,000.00	
3d Liberty Loan	1,000.00	
		4,000.00
Membership Dues Receivable		1,266.00
Accounts Receivable		432.34
Paper Stock		1,794.28
Furniture and Fixtures in Secretary-Treasurer's Office		250.00
		$13,227.56

Liabilities and Surplus

Membership Dues Prepaid		$262.50
Accounts Payable		1,733.03
Life Memberships		1,200.00
Reserves:		
Defaulted membership Dues Receivable	$500.00	
Bad Accounts Receivable	50.00	
		550.00
Contributions to Expenses of Committees	$1,118.50	
Expenditures	551.22	
		567.28
Surplus		8,914.75
		$13,227.56

SURPLUS ACCOUNT

Balance, December 18, 1917			$8,393.51
Miscellaneous Credits—Net			76.48
Defaulted Membership Dues[1]	$560.00		
Less Reserve	500.00		
		$60.00	
Uncollectible Accounts Receivable[1]	25.00		
Less Reserve	25.00		
			60.00
			8,409.99
Net Surplus, 1918			504.76
Surplus, December 18, 1918			$8,914.75

[1] Amounts of 1917 and prior.

INCOME STATEMENT

Ordinary Income			
Dues	$10,690.42		
Less Defaulted[2]	137.50		
	$10,552.92		
Interest	397.24		
		$10,950.16	
Ordinary Outgo			
Office Salaries	$2,001.99		
Traveling Expenses	28.17		
Stationery and Office Printing	357.09		
Postage	678.12		
Office Supplies	41.67		
Telephone and Telegraph	73.41		
Freight and Cartage	4.36		
Annual Meeting	243.81		
Miscellaneous	8.53		
		3,437.15	
Excess of Ordinary Income			$7,513.01
Publication Outgo			
Printing	$3,497.73		
Editorial Salary	1,500.00		
Contributional	1,203.25		
Editorial Expenses and Supplies	1,592.79		
Proceedings	1,158.31		
Sundry Expenses	104.40		
		$9,056.48	
Storage of Publications	$162.00		
Insurance	70.96		
		232.96	
		$9,289.44	
Publication Income			
Subscriptions	$2,092.70		
Less Defaulted[3]	17.50		
	$2,075.20		
Sales of Publications	755.99		
		2,831.19	
Excess of Publication Outgo			6,458.25
Gross Surplus			1,054.76
Reserve for Defaulted Membership Dues	$500.00		
Reserve for Bad Accounts Receivable	50.00		
			550.00
Net Surplus for the year			$504.76

[2] Due from members for 1918 publications.
[3] Due from subscribers for 1918 publications.

REPORT OF THE MANAGING EDITOR OF THE AMERICAN ECONOMIC REVIEW FOR THE YEAR ENDING DECEMBER, 1918

The cost of publishing the AMERICAN ECONOMIC REVIEW during the current year has been $7,793.77 as compared with $8,006.68 in 1917. This saving is largely due to a reduction in the number of pages printed. The volume for this year covers 906 pages as compared with approximately 1000 pages in preceding years. The printing item, therefore, is about $250 less than in 1917. Clerical assistance, owing to a slight advance in the salary list, is a little higher. By principal items the cost has been as follows:

Printing	$3497.73
Salary of editor	1500.00
Payments to contributors	1203.25
Clerical assistance	1260.06
Supplies	332,73
Total	$7793.73

The average edition published during the past year has been 3050, the same as that of the previous year.

The following have served as editors: Professor T. W. Page and Dr. J. L. Coulter, whose terms expire this year; Professor F. A. Fetter and Professor H. E. Mills, whose terms expire in 1919; and Professor G. E. Barnett and Dr. L. H. Haney, whose terms expire in 1920.

There have been but few changes in the staff which has contributed to regular departments. In the abstracting of periodicals Professor Clive Day has just resigned. No successor has yet been appointed to take his place. Mr. A. J. Dadisman, of the University of West Virginia, has succeeded Dr. J. L. Coulter in agricultural economics.

During the past year 106 persons have coöperated in writing for the REVIEW, including leading articles, communications, reviews, document notes, and periodical abstracts.

Appended are comparative tables showing the distribution of contents and costs by principal items, in continuation of tables previously given.

DAVIS R. DEWEY,
Managing Editor.

TABLE 1.—PAGES GIVEN TO EACH SECTION

Year	Leading articles	Reviews	New Books listed	Documents, Repts., etc.	Periodical abstracts	Notes	Doct. Diss.	Totals
1911	342	304	62	89	133	40	8	978
1912	291	298	101	110	186	41	11	1038
1913	347	268	104	141	167	43	8	1078
1914	327	243	136	113	166	35	10	1030
1915	314	257	90	142	144	42	14	1003
1916	388	256	91	90	140	46	13	1024
1917	378	192	110	127	120	42	15	984
1918	372	157	91*	112	99	41	17	906

* Of which 22 pages were given to brief reviews.

TABLE 2.—NUMBER OF ITEMS IN EACH SECTION

Year	Leading articles	Reviews	New Books listed	Document notes	Periodical abstracts
1911	21	207	785	27	1074
1912	17	213	1452	32	1727
1913	20	198	1416	42	1877
1914	20	145	1575	33	2021
1915	16	135	1062	29	1758
1916	24	143	1024	22	1586
1917	20	100	1156	25	1441
1918	22	64	923*	27	1264

* Of which 78 were briefly reviewed.

TABLE 3.—PERCENTAGE GIVEN TO EACH SECTION

Year	Leading articles	Reviews	New Books listed	Documents, Repts., etc.	Periodical abstracts	Notes	Doctoral Dissertations
1911	34.9	31.0	6.2	9.1	13.4	4.0	.8
1912	28.0	28.7	9.6	10.6	17.9	4.0	1.0
1913	32.2	24.9	9.6	13.0	15.5	4.0	.7
1914	31.8	23.6	13.2	11.0	16.1	3.4	.9
1915	31.3	25.7	9.0	14.2	14.4	4.2	1.3
1916	37.9	25.0	8.9	8.8	13.7	4.5	1.2
1917	37.4	19.7	11.1	12.9	12.2	4.2	1.2
1918	41.1	17.3	10.2	12.4	11.0	4.6	1.7

TABLE 4.—EXPENDITURES

Year	Printing	Salary of editor	Payments to contributors	Clerical	Supplies	Travel. Ex. Ed.	Totals
1911	$2495.18	$1500.00	$1320.25	$865.50	$413.51	$136.15	$6730.59
1912	3220.83	1500.00	1114.50	794.89	292.68		6922.90
1913	3328.01	1500.00	1268.35	983.09	325.10		7404.55
1914	3023.62	1500.00	1312.25	1236.29	459.18		7531.34
1915	2834.91	1500.00	1210.00	1171.87	286.86		7003.64
1916	3257.27	1500.00	1422.50	1173.93	339.86		7694.06
1917	3762.37	1500.00	1267.00	1151.30	326.01		8006.68
1918	3497.73	1500.00	1203.25	1260.06	332.73		7793.73

REPORT OF THE COMMITTEE ON THE PURCHASING POWER OF MONEY IN RELATION TO THE WAR

The Committee on Purchasing Power of Money in Relation to the War has held seven meetings and has issued four reports during the year. All reports were unanimous. Believing their most useful function during the war to be the dissemination of existing knowledge, rather than research, they have endeavored to make their reports as popular as the nature of the subject permitted.

The reports were given wide circulation, among the press of the country and otherwise, by the Bureau of Publicity of the War Savings Section of the Treasury Department. The first dealt with the fallacy of the "Business as Usual" philosophy as against the philosophy of "Save and Work." It stressed the need of a reduction of consumption and an increase of production, of the repression of non-essentials and of the promotion of organization and redirection of industry.

"By giving up non-essentials to buy the government securities," the report says, "we allow the government to buy war essentials and at the same time release productive energy from the making of non-essentials for us to the making of essentials for the government."

"But," it goes on to say, "if we won't make the needed sacrifice and perhaps delude ourselves into believing that we do not have to do so or even that we ought not to do so; that, on principle, we favor 'business as usual' for ourselves while expecting business unusual to be superadded by the government, we simply go through the motions of giving our billions to the government without really giving them up. Therefore the government, in order to buy away from us what we will not otherwise surrender, bids up prices, and the rise in prices which comes about through this sort of lending is cumulative."

"As the prices of war supplies rise the money cost of war grows and the government has to borrow more. Bigger loans by us to the government require bigger loans to us from the banks. This further expansion of bank credit favors a further rise in commodity prices, starting the whole process over again in a vicious circle."

The second report was on the "Need of a Unified Plan for Readjusted Industry to a War Basis," and can be summarized by the following extracts:

"The war necessitates a shifting of millions of men and billions of capital to new tasks in the shortest possible time."

"The offering of large profits, while making men eager to produce,

has not insured the necessary amount of labor and material for war work."

"Greater governmental control of war industry is necessary to systematize the shifting of industry, and to make certain that the things required for winning the war will be rapidly produced with a minimum of dislocation of the industrial machine."

The third report, on "Loans, Taxes, and the Purchasing Power of Money," can be summed up as follows:

"The present generation must pay the whole cost of the war; the burden cannot be shifted to the next generation.

"Financing the war by long-term bonds does not put crushing tax burdens on future generations, because the taxes they pay out of one pocket come back to the other pocket in the form of interest and principal.

"In former times the rich lent money for war and the next generation was taxed to repay the heirs of the rich, but in this war the bonds are so widely distributed among all classes, the rich of future generations may be the chief taxpayers.

"Saving is the soundest method of financing the war, but rapid readjustment makes necessary some credit expansion to stimulate war industries and conserve peace industries."

The fourth and concluding report was on "Stabilizing the Dollar." The proposal as worked out by Aneurin Williams, M.P., and others is described by the Chairman. The Committee regards the stabilizing of the value of monetary units under international agreement as desirable and economically feasible.

Two sub-committees of the main Committee, namely, one on Index Numbers and one on Objections, Difficulties, and Details of the Plan to Stabilize the Dollar, have not completed their work and are to be continued.

Respectfully submitted.

Committee:

Wesley Clair Mitchell,
Royal Meeker,
E. W. Kemmerer,
B. M. Anderson, Jr.,
W. M. Persons,
Irving Fisher, *Chairman.*

FIRST REPORT OF THE COMMITTEE ON FOREIGN TRADE OF THE AMERICAN ECONOMIC ASSOCIATION[1]

I. *Introduction*

American problems of foreign trade are today involved in the larger questions of the economic relations between nations which will confront the Peace Conference.

It has therefore been the aim of the Committee to attempt to find in the present situation the economic influences that obstruct a just and permanent peace, to enunciate policies in foreign commerce compatible with such a peace, and to indicate the agencies for their execution.

II. *The Scope of the First Report*

The present report will be confined to the elements obstructing a just and lasting peace. A consideration of economic policies and institutions must wait on the political results of the Peace Conference.

1. *The psychology of war and the organization of peace.*—The desire for peace dominated all of Europe in the closing days of the struggle. The sentiments of war, however, are yet in the air, and accentuated by the victory. And presently we must build up the peace. Primarily, a proper attitude is necessary, so as to avoid incorporating into the organization of peace those measures and institutions which reflect the spirit of war. If war is to be done with, its counsels can have no place in the discussion of peace.

2. *The distribution of goods, services, and gold.*—The war has upset the international economic balance. Four years of organized destruction have temporarily exhausted many of the belligerents. Their territories have been invaded in part. Many of their peace industries have been curtailed and some ruined. Their ocean tonnage has been diminished. Their trade has shrunk. Their foreign investments have been reduced. Their debts abroad have increased manyfold. As a result of her entry into the struggle, the United States has in common with her fighting allies lost much, though less than that suffered by any other major belligerent.

[1] Based on a paper of Professor O. M. W. Sprague.

On the other hand, the neutrals and the inactive allies have grown considerably. They have advanced in the very fields in which the belligerents have retrogressed.

Again, the economic balance has been upset in other ways. The war drained the belligerents of raw materials and created for them great pyramids of paper currency. During the years of reconstruction the distribution of much needed goods, of transportation and other services, and the extension of the means wherewith to pay for them, must be effected not upon a selfish national basis but upon a just international conception such as pervaded our war aims and elevated the struggle above brutish slaughter.

3. *Competition of government controlled business.*—The governments of the world, either by direct ownership and operation or by the extension of subsidies, supervision, and control, will be more intimately concerned with business than ever before. Legalized combinations of purchasers will face combinations of sellers of other nations. Difficulties between individual traders will henceforth become possible cases of international dispute. The situation will call for more tact and consideration than were necessary under the prewar regime.

4. *The economics of military preparedness.*—Chief among the obstacles to an enduring peace is the desire for self-sufficiency as a protection against possible war. Out of this in part arises the demand for colonies, for commercial preferences, for special concessions. The mere desire for these arouses envy and fear on the part of other nations, who must likewise seek protection against possible economic blockade. Under conditions of lasting peace, the economic development of the world's resources and the expansion of the commerce between nations would be unhindered by the fear of the exploitation of economic advantages for political and military ends. For in essence, national interests are not of necessity antagonistic; they are rather mutually complementary. On the reciprocal needs of nations, commerce is based.

To secure as far as possible the abolition of war as a means of settling international differences is one of the chief duties of the Peace Conference. Shall it admit the possibility of a resort to arms for the adjustment of national grievances? If trial by combat remains as a potential arbiter of differences, war will surely follow any scheme of economic preparedness for its conduct. If the wager of battle be excluded, many of the economic causes of war will automatically vanish.

The priceless boon of international peace may be bought for an economic bagatelle.

Members of the Committee:

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